CIO View

Quarterly Investment Traffic Lights

June 10, 2025
Marketing material

Our monthly market analysis and positioning

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IN A NUTSHELL

- May has seen markets recover further from the tariff chaos of early April. But bond investors are increasingly looking at the U.S. budget deficit and debt.
- For our 12-month outlook we see the European economy improving further, while the U.S. will likely go through a soft patch before recovering.
- For our core scenario this should allow for decent investment returns for most asset classes. There is, however, no shortage of risks to our forecasts.

1 / Market overview

1.1 Partial tariff de-escalation and stable data overshadow U.S. debt

Compared to April, May was quite kind to investors, with many asset classes posting strong gains.[1] Not that the extreme political statements coming out of Washington dried up. Overall, however, the volume of announced punitive tariffs continued to decline, though Donald Trump threatened an increase in tariffs on imports from the European Union (EU) to 50 percent by June 1 but, after a call with the EU Commission chief, Ursula von der Leyen, pushed this date back to July 9, pending further negotiations. This is likely to have contributed to the rapid spread of the acronym "TACO," coined by an FT (Financial Times) journalist, which stands for "Trump Always Chickens Out." In other words, there is a growing feeling that Donald Trump backs down before tariff or other dramatic announcements really hurt. Other observers refer to the "Trump put:" his willingness to make a U-turn on legislative proposals if the capital market reaction is too negative.

The most important tariff retreat in May, however, was the mutual reduction in tariffs between the world's two largest economies, the U.S. and China. U.S. tariffs on China were reduced from almost 150% to 30%, but again only for a period of 90 days. This grace period is already familiar from April 9 when Trump suspended the implementation of his "reciprocal tariffs" on many countries as stock and bond markets plunged. The deadline expires on July 9, and we would be surprised if investors do not become nervous as it approaches. Not least because the "deals" reached so far, such as the one agreed with London in May, are little more than vague declarations of intent that – in theory – still need to be followed by actual trade agreements. The classification of the tariffs as unlawful by a U.S. trade court at the end of the month stirred some hope in the markets. But Washington quickly found a way around the legal obstacle.

In May another growing concern added to the tariff worries. Trump's so-called "One Big Beautiful Bill Act" is big on spending and weak on raising revenues and risks adding to the U.S. budget deficit, which we see at over six percent of gross domestic product (GDP) for the years 2024 to 2026 – even in an economy with almost full employment. So far, only the House of Representatives has agreed on a version of this bill. Moody's, meanwhile, became the last of the three major rating agencies to downgrade the U.S.'s triple-A rating. As a result, yields on 30-year U.S. government bonds spiked to 5.15 percent. In Japan and Germany yields headed towards 3.2 percent. Although these yields were around 20 basis points lower by the end of the

[1] All market data, unless otherwise quoted, from Bloomberg Finance L.P. as of 6/3/25.

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month, investors are likely to remain concerned about the U.S. budgetary position and the potential impact on the dollar and borrowing rates. The underlying problem – rising U.S. debt coupled with a decline in foreign investors' appetite for Treasuries – is liable to worsen under current policies.

A good month for equities and corporate bonds, but U.S. government bonds are under pressure

Despite the tariff uncertainties and budget fears, the markets rose in May to new record highs on some European stock markets and in some corporate bond indices. The S&P 500 posted its best monthly return in 18 months, with a total return of 6.3 percent. Relatively solid economic data in the U.S. and Europe are likely to have played a role. April's tariff chaos has not yet made much of an impact on economies. But, as stocks rallied strongly, government bonds fared less well, especially those from the U.S. Across all maturities, they lost 1.1 percent in May.

2 / Outlook and changes

This being our quarterly Traffic Lights, we will concentrate on our 12-month forecasts rather than our tactical positioning. Overall, our investment outlook is once again quite optimistic, even if return expectations are slightly below average. This is based on our assumption that in 12-months' time, uncertainty about tariffs and taxes will have fallen and markets will be looking at the following 12 months, when we believe economic growth will reaccelerate. It is quite possible that equities and bond yields will not be far from their current levels in twelve months' time, after perhaps undergoing another significant correction or reaching new highs in the meantime – volatility could be pronounced.

2.1 Fixed Income

Bond investors face a challenging year ahead. They need to decide how much U.S. tariff policy could reduce growth and increase inflation. This task is made all the more difficult by the constant economic policy changes. And investors will also have to look at Trump's so-called big, beautiful tax bill and its effects on U.S. debt. We continue to believe that markets will act as a restraint on Trump's policymaking; and the U.S. Federal Reserve (Fed) will continue to defend itself and act independently.

Government Bonds

We expect the Fed to be cautious about inflation and not make the next interest rate cut until the fall. Overall, we expect four U.S. interest rate cuts by the summer of 2026. This should cause yields on 2-year Treasuries to fall in our expectation. However, the focus is currently on 10- and 30-year government bonds which are being put under pressure by the high U.S. budget deficit. In addition, foreign investors in particular may feel deterred from investing in the U.S. as a proposed bill would make it possible to charge them fees for holding government bonds. The U.S. government is playing with fire. But we believe the Fed would move swiftly to put out the fire and has various tools at its disposal to do so. This is why we see 10-year interest yields in 12 months' time basically at today's level. In Europe, German government bonds have cemented their reputation as a safe haven.[2] Even the expected increasing supply of bonds is unlikely to cause yields to rise significantly. For Japan, we expect more hikes by the central bank than the market, and therefore remain bearish on Japanese government bonds (JGBs).

[2] Financial safe havens are investments or assets that are expected to retain or increase in value during times of market turbulence.

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Same old story for sovereign bond yields: higher for longer

Source: Bloomberg Finance L.P., DWS Investment GmbH as of 6/3/25

Corporate Bonds

We also don't expect credit spreads to move significantly over the coming 12 months. But our view of these bonds remains positive as their current yields are attractively high. U.S. investment grade (IG) should in our view profit from less political uncertainty in 12 months' time, and positive technical factors (such as low net new issuance) and our expectation that the Fed will ease rates should be the catalyst for investors to move from money markets to longer duration fixed income. In Europe we expect IG credit to remain the sweet spot for fixed income investors and expect the market to be technically well supported. Accelerating economic growth in Europe, solid balance sheets and stable inflation are all supportive of this asset class.

We are slightly more cautious about high yield (HY) credit. We think current euro HY spreads have become quite tight given the high level of geopolitical uncertainty and the big challenges important sectors such as Autos and Industrials face as U.S. import tariffs are raised. We expect the default rate in this segment of the bond market to stay above 3 percent (and to rise to 3.5 percent in 12 months) as more companies suffer in the current difficult macro environment. We are constructive overall on U.S. HY, especially given that all in yields of 7.5 percent are helping to attract strong inflows to the market. That said, spreads are quite tight. We forecast U.S. HY default rates to increase to 2.0 percent over the next 12 months, which is still below the historical average.

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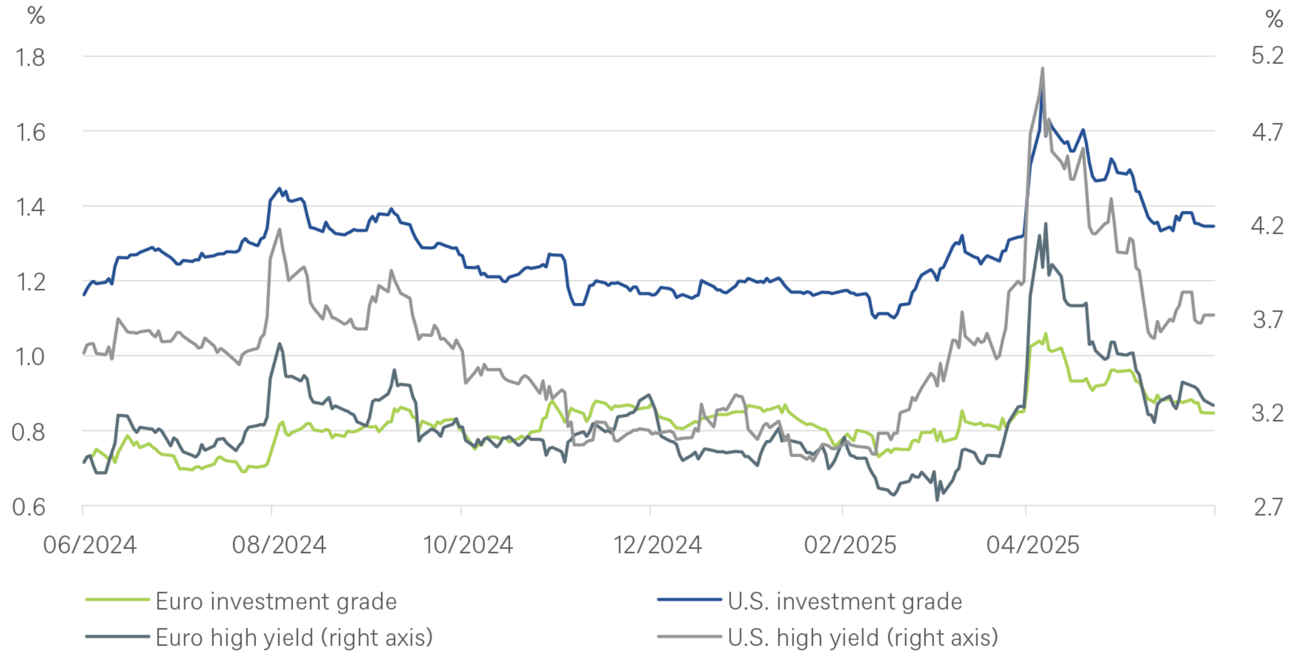
Trump's tariff attacks weighed more on U.S., than on euro corporate bonds



Source: Bloomberg Finance L.P., DWS Investment GmbH as of 6/3/25

Emerging Markets

Emerging markets (EM) sovereign bonds are reacting nervously to what is happening in the U.S. Investors appear now convinced that Trump will refrain from implementing his original drastic tariffs and a relief rally that has drawn in an underinvested investment community has now led to spread levels which do not reflect near-term risks sufficiently in our view. We are more positive on Asian credit, even though spreads here have also retraced close to their lows. Attractive all-in yields, strong technical support (i.e. favorable supply-demand levels), high saving rates and improving corporate balance sheets should continue to support the region in our view. We have a slight preference for IG over HY given potential volatility ahead and because of valuations.

Currencies

De-globalization, de-dollarization, de-risking from U.S. overexposure and decreasing confidence on the part of America's trading partners on the degree of cooperation they can expect from Washington are the backdrop to the dollar's weakness year-to-date -- and the basis of our belief that this trend could continue. In 12-months' time we see the dollar trading at 130 against the yen and at 1.18 against the euro.

2.2 Equities

As we shift our 12-month time horizon towards June 2026, we predict an approximately 6 percent total return for global equities in U.S. dollars from here, with our S&P 500 target at 6,100 and the DAX at 25,600. In our base case we assume that the so-called "Trump put" in which he supports the market when it's in trouble will continue to apply. Tariff-induced earnings cuts have lowered our global equity market target prices by about 6 percent. We predict that investors are likely to look through one or two quarters of weaker macro and earnings data so long as they keep believing that tariffs will be negotiated down and the U.S. 10-year Treasury yield remains below 5%.

We expect that "digital earnings" from the technology sector and platform companies will remain the backbone for continuing, multi-year superior earnings per share (EPS) growth in the S&P 500 and therefore provide a key justification for

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our June 2026 trailing price-to-earnings (P/E) target of 22.3x for the index. The target multiple is still 0.5 points lower than we had assumed before Trump's "Liberation Day" on April 2.

Equity markets have generously erased all memories from Trump's tariff attack.

Source: Bloomberg Finance L.P., DWS Investment GmbH as of 6/3/25

We stick to our tactical call to overweight European equities. Diversification,[3] reduced exposure to a weakening U.S. dollar and some thematic excitement for Europe's higher defense and infrastructure spending might push European earnings up further. We notice that the DAX has moved to a valuation premium versus its pan-European peers. Small- and mid-caps in Europe offer additional exposure to cyclical and structural growth trends. Our recent conversations with European managers reveal they are confident that they will be able to adjust to a new U.S. tariff regime. Sustainable outperformance on the part of European equities will require an end to negative EPS revisions over the coming weeks as the extreme valuation discounts to the U.S. market have already started to normalize.

Single stock topics and a renewed focus on potential cuts to U.S. health care spending given Trump's latest budgetary proposals have deprived the health care sector of its defensive characteristics. Regulatory uncertainty will likely also continue for some time. But we remain of the view that valuation levels in the sector have become too cheap and stick to our constructive view.

Japanese equities have exhibited meager earnings growth amidst yen appreciation, auto tariff fears and general economic uncertainty caused by the U.S. administration. However, solid wage gains, corporate reforms and better shareholder returns are supportive for the market. We therefore remain neutral for the time being.

In emerging markets we have seen some cautious good news. China has proved its tech capabilities and we expect more of a bottom-up rally and less of a negative impact from top-down developments. Together with companies' focus on profitability and a reversal in the declines in return on equity (ROE), we maintain a positive stance on Chinese companies in general and

[3] Diversification neither assures a profit nor guarantees against loss.

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especially on consumer-focused tech companies. Indian equities on the other hand look expensive now, given their weak delivery recently, even if local investors so far have stayed resilient.

2.3 Alternatives

Real Estate

Global real estate returns have turned positive, led by Europe, as normalizing interest rates support yield stabilization and transaction activity. Occupier fundamentals remain strong, and a sharp decline in new construction is enhancing the medium-term rental outlook. We favor Logistics, driven by e-commerce, and Residential, fueled by housing shortages, in all regions, as well as prime office space in the U.S. and Europe. The commercial real estate outlook is stabilizing as improving fundamentals and easier bank lending offset interest rate volatility.

The U.S. real-estate market was on an upswing in the first quarter of 2025, reflected in strengthening fundamentals, increasing values, and rising transaction activity. It is too early to gauge the impact of the recent tariff announcements. However, the near-term outlook for U.S. real estate appears to have dimmed, but the long-term outlook has improved as supply remains restricted.

Infrastructure

As a result of U.S. market uncertainty and years of capital inflows into the U.S., fundraising saw a notable shift towards investors favoring European exposure in the first quarter of 2025, a trend we expect to continue. The total return performance in 2024 was in line with market expectations. Deal activity has stabilized rather than accelerating significantly. On the listed infrastructure side, the market shows mixed fundamentals across asset types and geographies. But overall strong corporate balance sheets provide resilience. We remain highly selective, as performance dispersion is expected to persist.

Gold

We have raised our strategic gold forecast to USD 3,700 per ounce driven by persistent geopolitical uncertainty, weakening confidence in the U.S. dollar, expanding global liquidity, and sustained central bank demand. Although gold has recently moved in line with riskier assets, it remains a potential safe haven[4] asset during volatile market times and a source of liquidity. Physical gold is expected to retain a premium over futures, supported by investor preference and tariff exclusions. Despite potential short-term pullbacks, we maintain a bullish medium-term view, with dips likely to be met by strong buying interest. We have also made tactical changes and moved gold from neutral to overweight, as ongoing central bank buying and retail jewelry buyers should offset any reduction in investor interest in our view.

[4] Financial safe havens are investments or assets that are expected to retain or increase in value during times of market turbulence.

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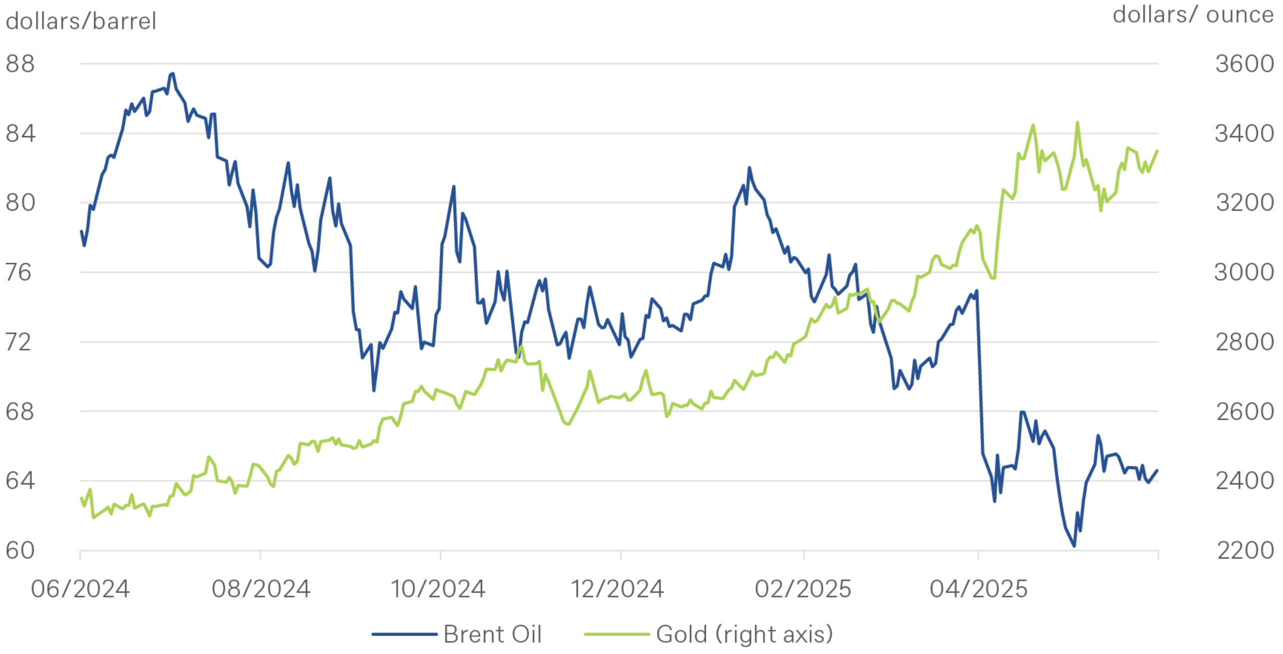
Investors sought safety in gold, while OPEC+ production plans weighed on the oil price



Source: Bloomberg Finance L.P., DWS Investment GmbH as of 6/3/25

Oil

Our revised forecast continues to reflect weaker market fundamentals and elevated inventory projections through 2025. While OPEC+ is expected to continue phasing out voluntary cuts, the return of supply, in combination with lower-than-expected demand growth, particularly in China, is likely to keep the market oversupplied and cap near-term price gains. Incremental sanctions on Russia and Iran are being offset by the ongoing rise in OPEC+ production as well as by a net production increase in ex-OPEC+ countries. Our 12-month forecast for Brent crude is USD 63 per barrel.

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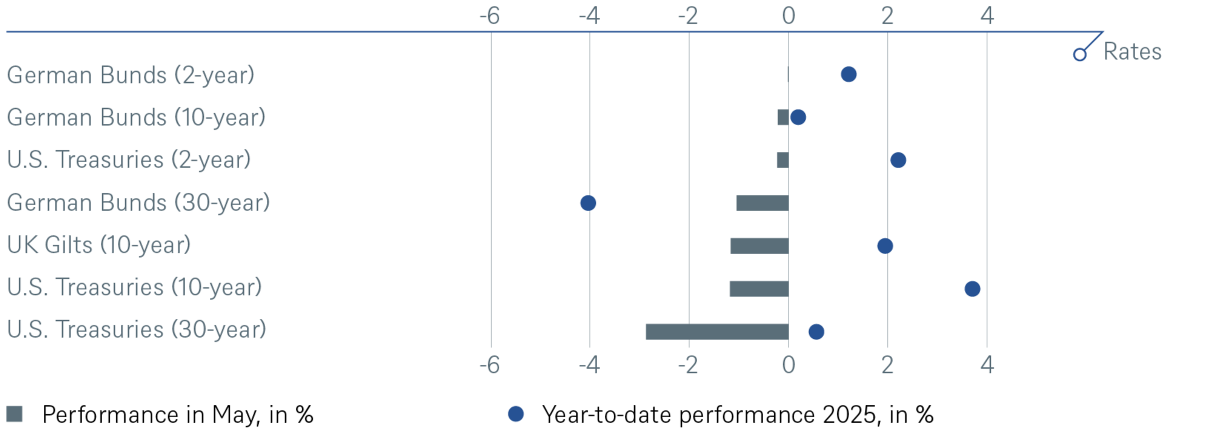
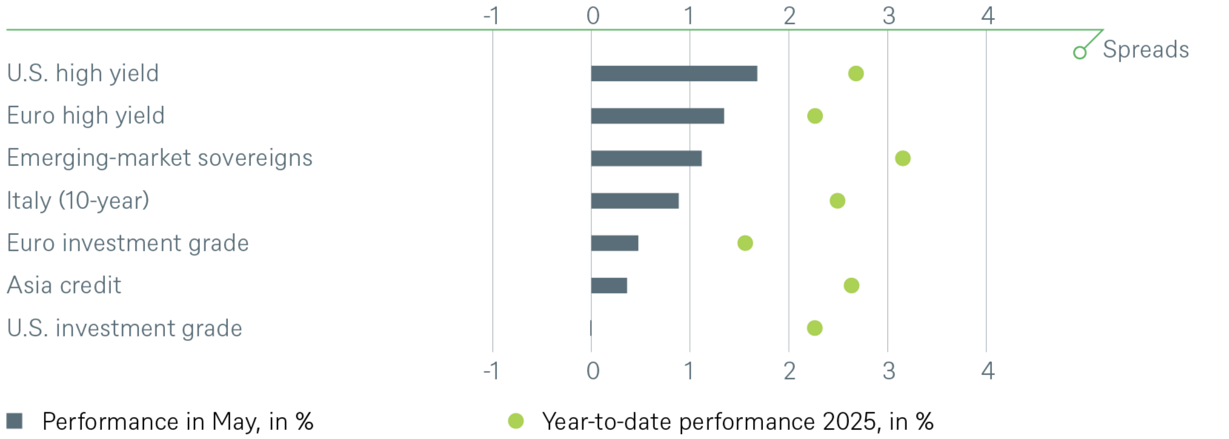
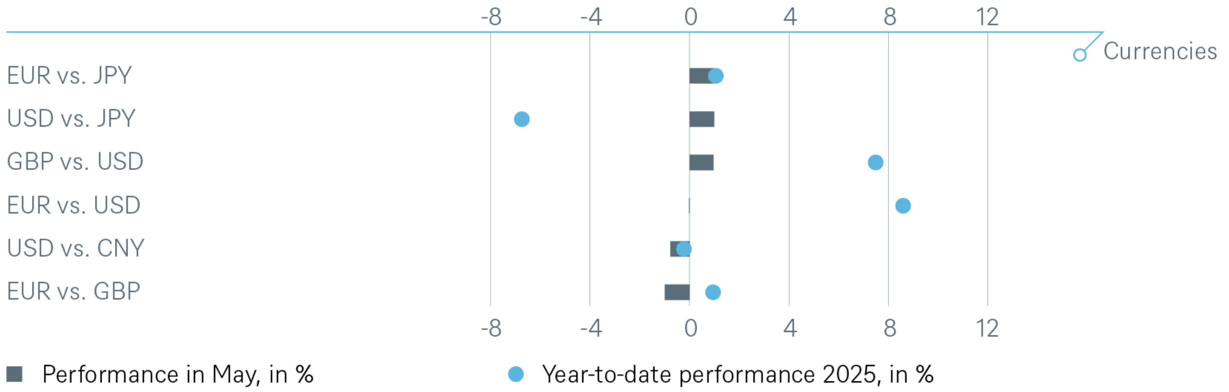
3 / Past performance of major financial assets

Total return of major financial assets year-to-date and past month







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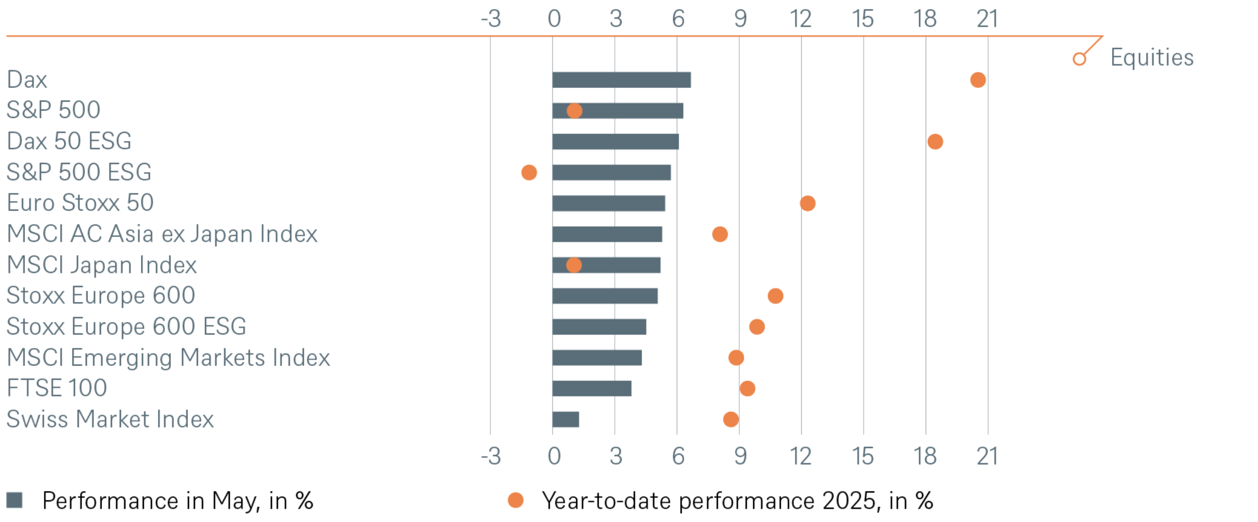

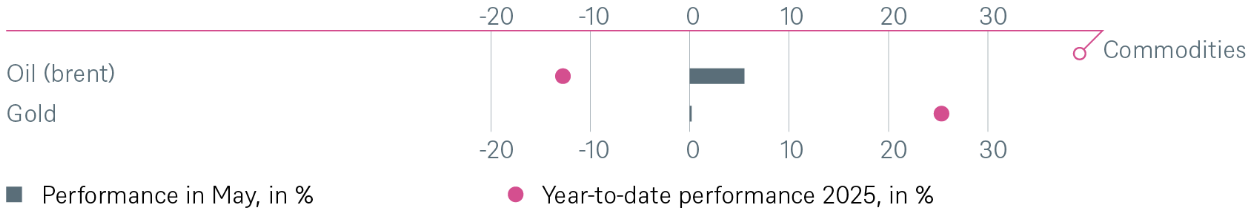

Past performance is not indicative of future returns.
Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 5/30/25

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4 / Tactical and strategic signals

The following exhibit depicts our short-term and long-term positioning.

4.1 Fixed income

Rates	1 to 3 months	through June 2026
U.S. Treasuries (2-year)	🟡	🟢
U.S. Treasuries (10-year)	🟡	🟢
U.S. Treasuries (30-year)	🟡	🟢
German Bunds (2-year)	🟡	🟡
German Bunds (10-year)	🟡	🟡
German Bunds (30-year)	🟡	🟡
UK Gilts (10-year)	🟢	🟢
Japanese government bonds (2-year)	🟡	🟡
Japanese government bonds (10-year)	🟡	🟡

Spreads	1 to 3 months	through June 2026
Italy (10-year)[1]	🟡	🟡
U.S. investment grade	🟡	🟢
U.S. high yield	🟡	🟢
Euro investment grade[1]	🟢	🟢
Euro high yield[1]	🟡	🟢
Asia credit	🟡	🟢
Emerging-market sovereigns	🟡	🟢

Securitized / specialties	1 to 3 months	through June 2026
Covered bonds[1]	🟡	🟡
U.S. municipal bonds	🟡	🟢
U.S. mortgage-backed securities	🟢	🟢

Currencies	1 to 3 months	through June 2026
EUR vs. USD	🟡	🟡
USD vs. JPY	🔴	🔴
EUR vs. JPY	🟡	🔴
EUR vs. GBP	🟡	🔴
GBP vs. USD	🟡	🟡
USD vs. CNY	🟡	🟡

4.2 Equities

Regions	1 to 3 months[2]	through June 2026
United States[3]	🟡	🟡
Europe[4]	🟢	🟢
Eurozone[5]	🟡	🟢
Germany[6]	🟡	🟢
Switzerland[7]	🟡	🟢
United Kingdom (UK)[8]	🟡	🟡
Emerging markets[9]	🟡	🟢
Asia ex Japan[10]	🟡	🟢
Japan[11]	🟡	🟡

Sectors	1 to 3 months[2]
Consumer staples[12]	🟡
Healthcare[13]	🟢
Communication services[14]	🟡
Utilities[15]	🟡
Consumer discretionary[16]	🟡
Energy[17]	🟡
Financials[18]	🟡
Industrials[19]	🟡
Information technology[20]	🟡
Materials[21]	🟡

Style	1 to 3 months
U.S. small caps[22]	🟡
European small caps[23]	🟢

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4.3 Alternatives

Alternatives	1 to 3 months	through June 2026
Commodities[24]	🟡	🟢
Oil (brent)	🟡	🔴
Gold	🟢	🟢
Carbon		🟡
Infrastructure (listed)	🟢	🟢
Infrastructure (non-listed)		🟢
Real estate (listed)	🟢	🟢
Real estate (non-listed) APAC[25]		🟡
Real estate (non-listed) Europe[25]		🟢
Real estate (non-listed) United States[25]		🟢

[1] Spread over German Bunds. [2] Relative to the MSCI AC World Index (only for the tactical signals),[3] S&P 500, [4] Stoxx Europe 600, [5] Euro Stoxx 50, [6] Dax, [7] Swiss Market Index, [8] FTSE 100, [9] MSCI Emerging Markets Index, [10] MSCI AC Asia ex Japan Index, [11] MSCI Japan Index, [12] MSCI AC World Consumer Staples Index, [13] MSCI AC World Health Care Index, [14] MSCI AC World Communication Services Index, [15] MSCI AC World Utilities Index, [16] MSCI AC World Consumer Discretionary Index, [17] MSCI AC World Energy Index, [18] MSCI AC World Financials Index, [19] MSCI AC World Industrials Index, [20] MSCI AC World Information Technology Index, [21] MSCI AC World Materials Index, [22] Russell 2000 Index relative to the S&P 500, [23] Stoxx Europe Small 200 relative to the Stoxx Europe 600, [24] Relative to the Bloomberg Commodity Index, [25] Long-term investments.

Tactical view (1 to 3 months)

The focus of our tactical view for fixed income is on trends in bond prices.

- 🟢 Positive view
- 🟡 Neutral view
- 🔴 Negative view

Strategic view through June 2025

- The focus of our strategic view for sovereign bonds is on bond prices.
- For corporates, securitized/specialties and emerging-market bonds in U.S. dollars, the signals depict the option-adjusted spread over U.S. Treasuries. For bonds denominated in euros, the illustration depicts the spread in comparison with German Bunds. Both spread and sovereign-bond-yield trends influence the bond value. For investors seeking to profit only from spread trends, a hedge against changing interest rates may be a consideration.
- The colors illustrate the return opportunities for long-only investors.
  - 🟢 Positive return potential for long-only investors
  - 🟡 Limited return opportunity as well as downside risk
  - 🔴 Negative return potential for long-only investors

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Glossary

A balance sheet summarizes a company's assets, liabilities and shareholder equity.

One basis point equals 1/100 of a percentage point.

The Bloomberg Commodity Index (BCOM) traces 23 commodities and reflects commodity futures price movements.

A budget deficit is created whenever the spending in a public budget exceeds the income within a given time period

Credit spread is the difference between the yield (return) of two different debt instruments with the same maturity but different credit ratings.

The Dax is a blue-chip stock-market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

The default rate refers to the proportion of borrowers who cannot service their loans.

Defensive stocks are stocks from companies whose sales are expected to fluctuate less than the market average as the demand for their products are less tied to business cycles.

Diversification refers to the dispersal of investments across asset types, geographies and so on with the aim of reducing risk or boosting risk-adjusted returns.

Duration is a measure expressed in years that adds and weights the time periods in which a bond returns cash to its holder. It is used to calculate a bond's sensitivity towards interest-rate changes.

Earnings per share (EPS) is calculated as a company's net income minus dividends of preferred stock, all divided by the total number of shares outstanding.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

The Euro Stoxx 50 is an index that tracks the performance of blue-chip stocks in the Eurozone.

The European Commission (EU Commission) is the executive body of the European Union (EU) which represents the interests of the EU.

The European Union (EU) is a political and economic union of 27 member states located primarily in Europe.

The FTSE 100 is an index that tracks the performance of the 100 major companies trading on the London Stock Exchange.

A futures contract is a standardized, contractual agreement to trade a financial instrument or commodity at a pre-determined price in the future.

The gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

High-yield bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

The United States House of Representatives is a legislative chamber consisting of 435 Representatives, as well as non-voting delegates from Washington, D.C. and U.S. territories. Representatives are elected for two-year terms and each state's representation is based on population as measured in the previous Census.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Investment grade (IG) refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

Japanese Government Bond (JGB) is issued by the government of Japan.

Moody's is a firm providing credit ratings and other financial research and analysis.

The MSCI AC World Communication Services Index captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Communications Services sector.

The MSCI AC World Consumer Discretionary Index captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Consumer Discretionary sector.

The MSCI AC World Consumer Staples Index captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Consumer Staples sector.

The MSCI AC World Energy Index captures large- and mid-cap securities across 23 developed-markets classified in the Energy sector.

The MSCI AC World Financials Index captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Financials sector.

The MSCI AC World Health Care Index captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Health Care sector.

The MSCI AC World Index captures large- and mid-cap companies across 23 developed- and 24 emerging-market countries.

The MSCI AC World Industrials Index captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Industrials sector.

The MSCI AC World Information Technology Index captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Information Technology sector.

The MSCI AC World Materials Index captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Materials sector.

The MSCI AC World Real Estate Index captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Real Estate sector.

The MSCI AC World Utilities Index captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Utilities sector.

The MSCI AC Asia ex Japan Index captures large- and mid-cap representation across 2 of 3 developed-market countries (excluding Japan) and 8 emerging-market countries in Asia.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 emerging-market countries.

The MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market.

OPEC+ is an informal alliance of OPEC members and other oil-producing countries, led by Russia, aiming to coordinate their production strategies.

The price-to-earnings (P/E) ratio compares a company's current share price to its earnings per share.

A rating is a standardized assessment of the creditworthiness of the issuer and its debt instruments by specialized agencies. The main three rating agencies are the Moody's (Aaa over Baa1 to C, best to worst), S&P (AAA over BBB+ to D, best to worst) and Fitch (AAA over BBB+ to D, best to worst).

The Return on equity (ROE) is the amount of net income returned as a percentage of shareholders' equity.

The Russell 2000 Index is an index that captures the 2,000 smallest stocks of the Russell-3000 index, which again comprises 3,000 small- and mid-cap U.S. listed stocks.

The S&P 500 is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

A safe-haven investment is an investment that is expected to retain or even increase its value in times of market turbulence.

Sovereign bonds are bonds issued by governments.

The Stoxx Europe 600 is an index representing the performance of 600 listed companies across 18 European countries.

The Stoxx Europe Small 200 is an index representing the performance of 200 small capitalization companies across 17 European countries.

The Swiss Market Index (SMI) is Switzerland's most important equity index, consisting of the 20 largest and most liquid large- and mid-cap stocks.

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

The Trump put is based on Trump's focus on capital markets also as a measure of political success – therefore investors believe(d) that Trump would backtrack on political measures as soon as they cause a sufficiently negative reaction on capital markets.

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

A valuation premium is the excess a buyer is willing to pay for one asset relative to other assets.

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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