

Our monthly market analysis and positioning



Björn Jesch
Global Chief
Investment Officer

IN A NUTSHELL

- Investors quickly overcame market turbulence at the beginning of the August
- Almost all asset classes up in August, even if AI euphoria waned slightly.
- We believe that the economic slowdown in the U.S., the lack of a turnaround in China and the lack of momentum in Germany could lead to renewed market volatility.

1 / Market overview

1.1 The 'quick dip' at the beginning of the August only briefly spooked the markets

Investors bet on a September Fed rate cut

Once again, the holiday month of August needed just a few unsunny hours to spoil the holiday mood of many fund and risk managers. The combination of weak U.S. labor market data, an interest rate hike by the Bank of Japan (BoJ) and a short-term unwinding of many Yen carry trade positions¹ led to severe market turbulence, as the following three key figures alone show: the Japanese Topix fell by more than 12% in a single day, the U.S. stock market volatility index Vix soared to over 60 (the highest level since the outbreak of the Covid pandemic) and two interest rate cuts (0.25% each) were briefly priced in on the U.S. bond market for the September meeting. However, all it took was a few warm words from the U.S. and Japanese central bank presidents and favorable U.S. inflation figures to end the panic almost as quickly as it began. By the end of the month, and just in time for U.S. Labor Day, the holiday mood was restored and most asset classes ended the month in positive territory – despite disappointing macroeconomic figures from China and Germany. Japan's growth too is looking tepid as its export-oriented manufacturing sector is suffering from the sluggish upturn in goods trade but at least Japan was able to report the first real wage increase (for the month of June) in over two years in August.²

1.2 Almost all asset classes up

U.S. yield curve is approaching normalization

Despite the initial shock, global equities closed the month in positive territory and the MSCI World enjoyed a +2.7% total return. The only downer was the weakness in the U.S. of major technology stocks, which suffered from investors' waning AI euphoria, or nervousness about valuations. The Japanese market was one of the few major markets that failed to return to positive territory, at least in local currency terms – thanks to the strong appreciation of the yen, the MSCI Japan made gains in dollar terms. Whether in dollars or yuan, local Chinese shares continued to fall in August. The CSI 300 fell to its lowest

¹ In what is probably the most established global carry trade at the moment, investors are borrowing yen at low interest rates and investing it outside Japan at higher yields. However, Japanese investors are also actively travelling abroad in search of higher yields.

² See our DWS CIO Update "Japan – still on track" published on September 2, 2024.

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level since February and is down over 3% for the year as a whole, while the MSCI China has managed a slight gain of 2% since the beginning of the year, but is also one of the laggards globally.

In the bond segment relatively weak economic and low inflation data caused yields to fall and prices to rise. But 10-year U.S. Treasury yields did not fall for long below the chart support line of around 3.8%. As 2-year yields fell more sharply, the corresponding yield curve ended the month at a negative 1.1 basis points (bps), just below the positive area where it last stood in mid-2022. In Germany the 10-year Bund yield fell less sharply. In fact, on the first trading day in September it was above the closing level from July. There were significant price gains in corporate bonds on both sides of the Atlantic, especially in the U.S., where investors' nerves proved resilient.

Also worth mentioning in August was the continuing triumph of gold. The precious metal surpassed the USD 2,500 per ounce mark for the first time, with a gain for the month of 3.4%. It certainly far outshone Bitcoin, which fell by 8.5%.

2 / Outlook and changes

As we are heading into our quarterly CIO Day that takes place on September 5th, where we determine DWS's new strategic 12-month targets, we will mainly discuss tactical changes in this outlook section.

2.1 Fixed Income

U.S. macroeconomic data is painting a mixed picture, with no clear direction and many indicators moving sideways. Inflation is falling slightly, unemployment rising slightly. A slowdown evident for some time in many leading indicators is still not visible in the GDP figures. Growth in the second quarter has even been revised upwards from 2.8 to 3.0% (quarter on quarter (q/q), annualized).

Government Bonds

According to futures markets, investors are pricing in the equivalent of a 33bps interest rate cut for mid-September and a total of four rate cuts (each 25bps) by the end of the year for the Fed; we see one less rate cut. In the Eurozone we agree with the market consensus which sees a 25bp interest rate cut in September. We expect a further move by the end of the year, with the market view fluctuating between one and two moves.

Corporate Bonds

Corporate bonds, especially those in the high-yield segment, were affected by the market turbulence at the beginning of August and saw a widening in their risk premium (spread). In the case of Europe, we thought the rise was exaggerated and therefore upgraded our assessment from negative to neutral when the market was at its most nervous. In the U.S., however, we decided to switch from neutral to negative after the fairly rapid market recovery and spread narrowing towards the end of August because we believe the low spread leaves no room for disappointment. This seems unwise given the growing risks – for example, the rising default rates on U.S. consumer loans.

Emerging Markets

In emerging markets, too, the market turbulence has led to widening risk premiums. This builds on an already more clearly negative trend in the previous two months and so we have lowered our rating from positive to neutral.

Currencies

The focus was naturally on the yen in August. After its sudden appreciation from over 160 yen per dollar to around 145 yen per dollar we consider the Japanese currency to be fairly valued over the medium-term. Short-term we might see the yen weakening slightly against the dollar again. With respect to the EURUSD currency pair, we believe there were also technical reasons for the marked depreciation of the dollar against the euro. We expect the rate to stabilize again at levels below

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EURUSD 1.10. We have moved to neutral on the U.S. dollar versus the Chinese yuan. Here, the market turbulence at the beginning of August led to a complete trend reversal, with the yuan ending the month at its strongest level since mid-2023.

2.2 Equities

During the market turbulence our prior switch to a somewhat more defensive positioning paid off. We had downgraded the communication services sector to neutral after it had become too expensive for us as a gateway to the AI theme. Instead, we upgraded the healthcare sector in July, which has since paid off. The switch in investment styles from 'quality' to 'minimum volatility' has also proved its worth in recent months, not least because the proportion of large U.S. technology companies is significantly lower. The latter stocks, as compiled in the Magnificent 7 index has not fully made for its earlier losses during the month of August, while many large indices, including the S&P 500, ended trading above the levels seen before the market collapse.

U.S. Market

The market slump has not only shown that you need particularly strong nerves if you hold the long-term market drivers, the Magnificent 7. It has also shown that investors know current market valuations leave little room for disappointment. Despite a fairly good reporting season, the S&P 500 has yet to reach its mid-July high. A widely anticipated Fed interest rate cut in mid-September could provide fresh impetus. At the same time, however, rising nervousness about the wide-open U.S. election could keep the markets in check.

Europe

European equities are back at the level they were before the market slump. The quarterly reporting season was positive, even if the macro news was mixed. Consumption is being held back somewhat by rising savings rates and the manufacturing sector is still waiting for a real upturn in momentum. But Europe's valuation discount to the U.S. is too high in our opinion, especially as AI euphoria is waning.

Germany

The DAX performed even better than the European market as a whole in August, although the economic figures from Germany were particularly disappointing. However, we foresee positive earnings revisions at German companies and believe the market has further catch-up potential relative to U.S. stocks in terms of valuation.

Emerging markets

China remains the weakest link. Despite Beijing's support measures (or announcements thereof), equities are only going in one direction. Things are going better in India, although even here the stock markets lagged behind global markets in August, albeit after two strong previous months. On EM as a whole we remain neutral.

Japan

Even though the reflationary upswing in Japan continues, ending years of deflation, the market lagged slightly behind global markets in August. The main reason may be that Japan's export industry is also waiting for a real upturn in global demand.

2.3 Alternatives

Real Estate

On a year-to-date basis, U.S. listed real estate has fallen 0.13%, while private real estate has lost 2.81%, and on a trailing 12-month basis (ended 6/30/24) U.S. listed real estate has risen 7.79%, while private real estate has had a negative 9.25% total return. We have often stated that listed real estate markets can lead the private market by 9-to-12 months, indicating that we should soon see private market values start to rise or at least flatten out. We are already seeing signs of that. There won't be another read on our private market proxy until the fall but we can say that U.S. listed real estate, using this index, returned 9.65% from the end of the second quarter through August 21st.

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Listed Infrastructure

We have upgraded listed infrastructure from Neutral to +1. Fundamentals remain stable in U.S. Midstream Energy but could decelerate if demand softens in the second half of the year. Valuations for Americas Utilities and Towers are attractive with potential lower interest rates being a further tailwind. Transportation fundamentals are mixed globally with uncertain economic outlook. With substantial investing in AI and data centers, we expect to see increased load growth which could reduce regulatory lag and increase rate base growth rates, especially in U.S. electric utilities.

Gold

Even though the market panic lasted only a few days, gold once again reached record highs in August – unlike cryptocurrencies – and preserved its reputation as a safe haven in troubled times. We have downgraded gold in early September to Neutral, however, as we believe that a significant Fed cutting cycle (4 cuts until year end) is already priced in. It could be difficult to see nominal/real rates fall significantly further absent continued weakening economic data (though we acknowledge the relationship with gold has changed in recent years). If the Fed cuts only 25 bps in September that could be seen as hawkish (it is slightly lower vs. current pricing). Gold has recently consolidated around, but not advanced significantly past USD 2500/ounce, while the dollar index DXY (negatively correlated to the gold price) is closer to the low end of its trading range back to mid-2022.

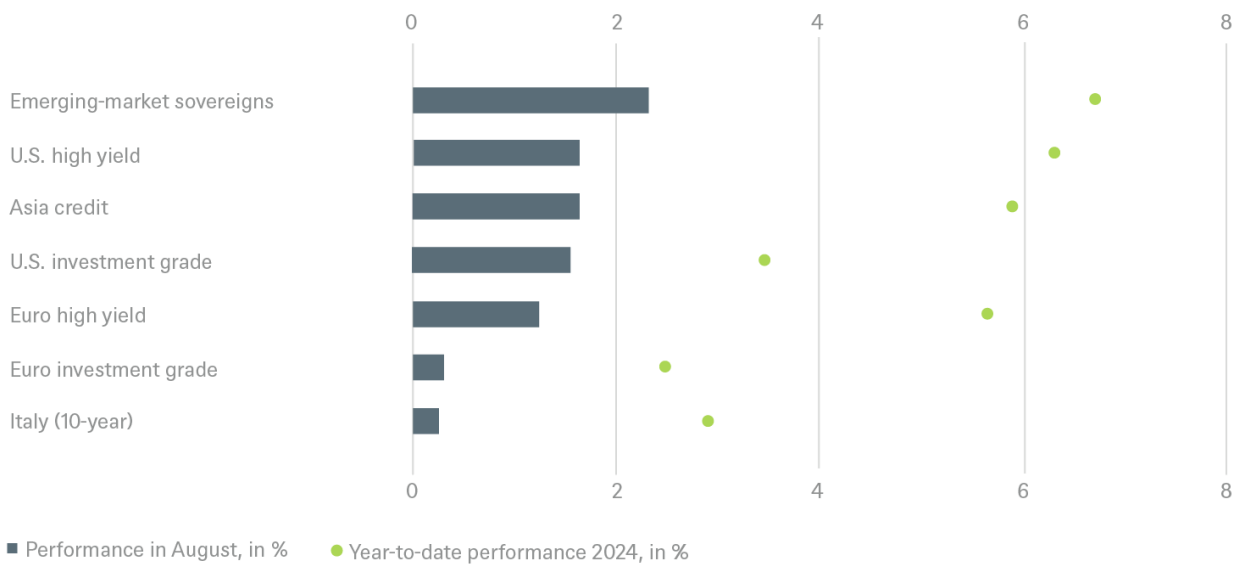
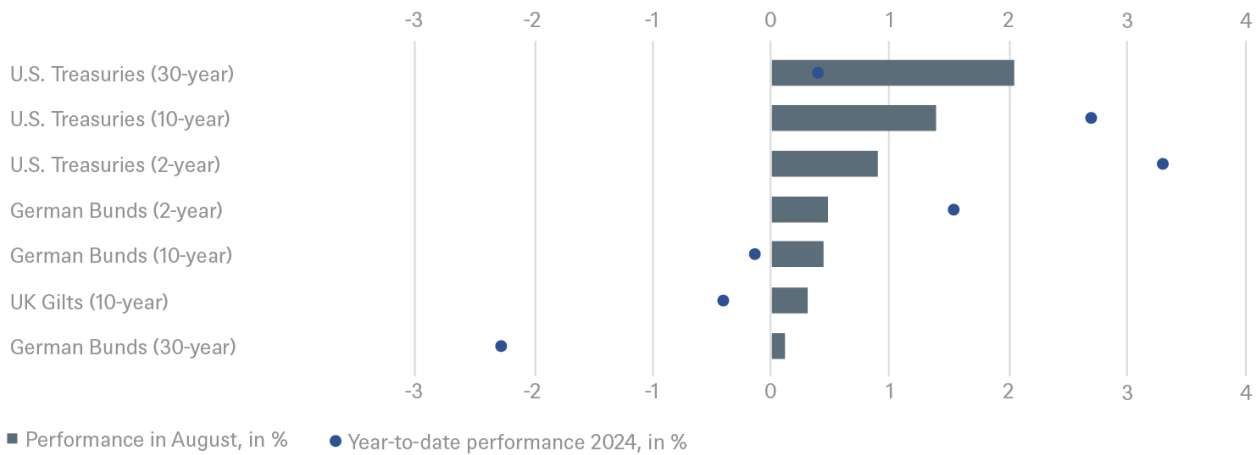
Oil

In terms of supply, our own analysis continues to show an oversupplied market, with particular oversupply in the fourth quarter of this year, which will likely prevent OPEC+ members from rolling back their earlier voluntary cut commitments, while some members, such as Iraq, Kazakhstan, and Russia, continue to produce above their quotas. On the demand side, a broader-based global economic slowdown, evident in weaker Chinese data, could serve to provoke further near-term price declines.

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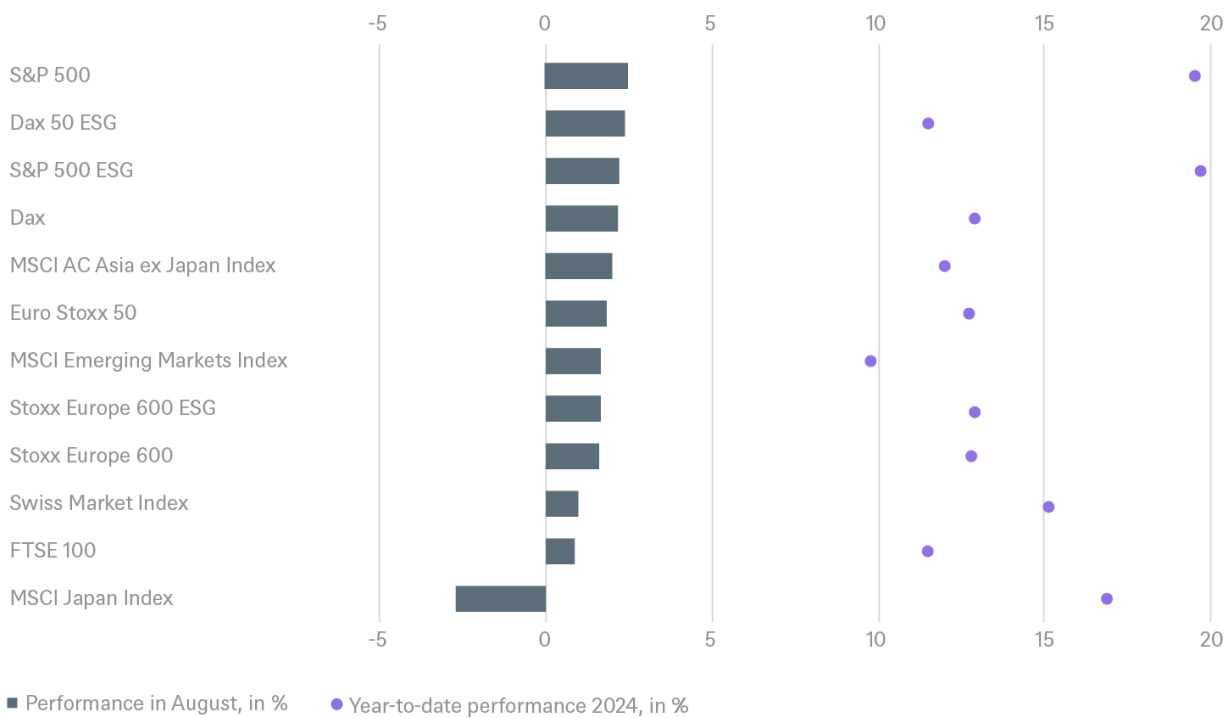
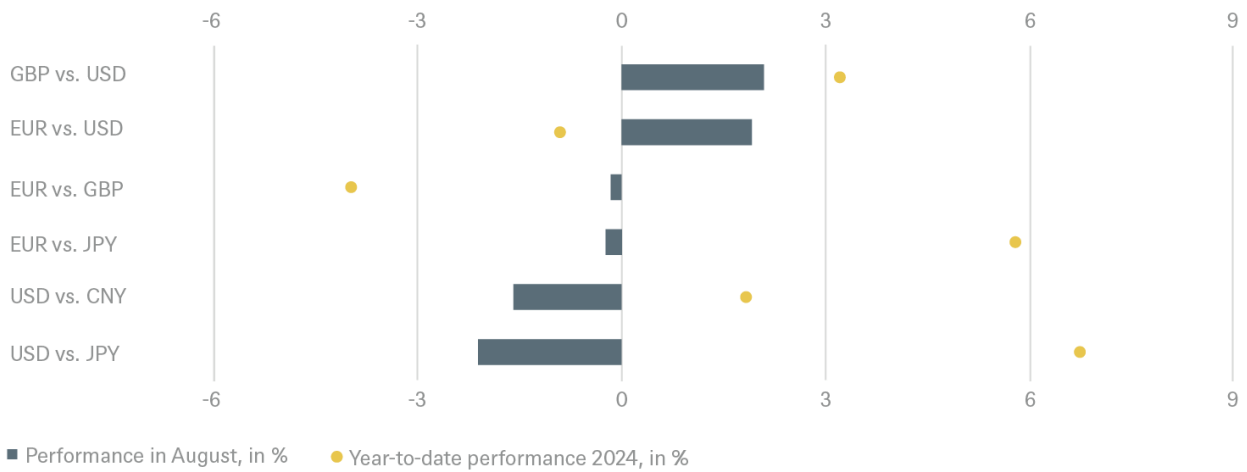
3 / Past performance of major financial assets

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



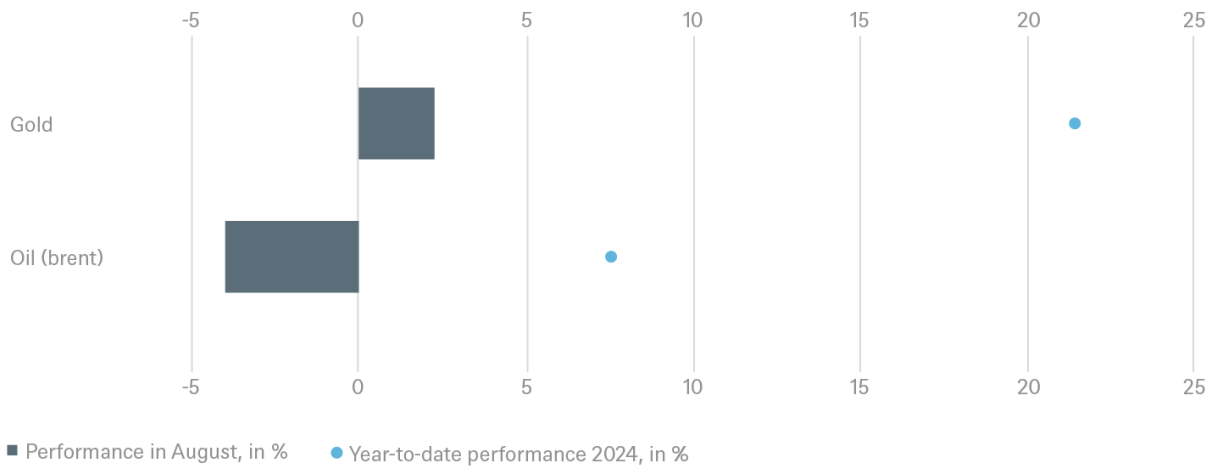
Past performance is not indicative of future returns.
 Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 8/30/2024

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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 2025 |
|-------------------------------------|---------------|-------------------|
| 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) | ● | ● |

| Securitized / specialties | 1 to 3 months | through June 2025 |
|---------------------------------|---------------|-------------------|
| Covered bonds ¹ | ● | ● |
| U.S. municipal bonds | ● | ● |
| U.S. mortgage-backed securities | ● | ● |

4.2 Equities

| Regions | 1 to 3 months ² | through June 2025 |
|----------------------------------|----------------------------|-------------------|
| United States ³ | ● | ● |
| Europe ⁴ | ● | ● |
| Eurozone ⁵ | ● | ● |
| Germany ⁶ | ● | ● |
| Switzerland ⁷ | ● | ● |
| United Kingdom (UK) ⁸ | ● | ● |
| Emerging markets ⁹ | ● | ● |
| Asia ex Japan ¹⁰ | ● | ● |
| Japan ¹¹ | ● | ● |

| Spreads | 1 to 3 months | through June 2025 |
|------------------------------------|---------------|-------------------|
| 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 | ● | ● |

| Currencies | 1 to 3 months | through June 2025 |
|-------------|---------------|-------------------|
| EUR vs. USD | ● | ● |
| USD vs. JPY | ● | ● |
| EUR vs. JPY | ● | ● |
| EUR vs. GBP | ● | ● |
| GBP vs. USD | ● | ● |
| USD vs. CNY | ● | ● |

| 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 | ● |

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| Style | 1 to 3 months |
|-----------------------------------|---------------|
| U.S. small caps ²² | ● |
| European small caps ²³ | ● |

4.3 Alternatives

| Alternatives | 1 to 3 months | through June 2025 |
|--|---------------|-------------------|
| 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 | | ● |

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

Artificial intelligence is the theory and development of computer systems able to perform tasks normally requiring human intelligence.

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

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

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

Carry trade Investment position with the aim of benefiting from interest rate differentials.

The **CSI 300 Index** includes the 300 largest companies of the Chinese mainland, that is companies listed on the Shanghai and Shenzhen Stock Exchange (so called A-shares).

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

Deflation is a sustained decrease in the general price level of goods and services.

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 **Eurozone** is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

Federal Reserve Bank is a regional bank of the Federal Reserve System, the central banking system of the United States. There are twelve in total.

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

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.

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

Magnificent 7 is a name for the group of the 7 largest stocks in the S&P 500.

A **minimum volatility factor** involves buying stocks based on the estimate of their volatility and correlations with other stocks.

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 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 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 China Index** captures large- and mid-cap representation across China H shares, B shares, Red chips, P chips and foreign listings.

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.

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The [MSCI World Index](#) tracks the performance of mid- and large-cap stocks in 23 developed countries around the world.

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

[Quality factor](#) refers to the tendency of high-quality stocks with typically more stable earnings, stronger balance sheets and higher margins, over a long time horizon.

The [risk premium](#) is the expected return on an investment minus the return that would be earned on a risk-free investment.

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.

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.

The [Topix \(Tokyo Stock Price Index\)](#) captures all companies (almost 2000) of the First Section of the Tokyo Stock Exchange.

[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 [VIX](#) is the popular name for the Chicago Board Options Exchange's Volatility Index. It is a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

[Volatility](#) is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

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as of 9/3/24; 082326_43 (09/2024)