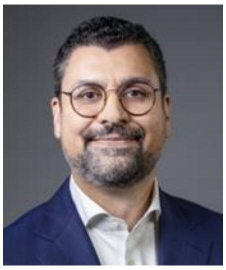
Our monthly market analysis and positioning



Vincenzo Vedda
Chief Investment Officer

IN A NUTSHELL

- January generated lots of geopolitical noise for investors, who on the surface remained surprisingly calm.
- But gold and silver's unprecedented ascent was testament to considerable underlying unease.
- We believe a supportive underlying economy has the potential to lift financial markets further – even if continued volatility is likely given the political agenda for the rest of the year.

1 / Market overview

1.1 For investments, Greenland was the symbolic high and low point of the month of January

Does anyone still remember the quite extraordinary U.S. military attack on Venezuela that resulted in the capture of President Nicolas Maduro? That is how the year began, and with it the breath-taking tone and pace for a month of January that has been like an improbable Hollywood thriller. The demands investors would face were set as well: They have had to grapple with some extreme geopolitical developments in the first month of the year – and this may remain the case throughout the year. Amid the flood of dramatic headlines, investors must distinguish between what will move markets only briefly and what will drive them over the long term. So far, steady hands have paid off: the vast majority of asset classes rose in January. But whether that will continue to be the case is highly uncertain.

The market movements in January show which developments have most alarmed investors so far: anything that could affect fiscal and monetary policy. In Japan, for example, the election announcement by a new prime minister, who is considered to favor expansive fiscal policy, and the central bank's hesitation to raise rates further caused significant swings in bond and currency markets. The prime minister's budget plans and Japan's debt sustainability are being questioned.

The biggest focus of the markets in January, however, was once again the U.S. Federal Reserve (the Fed). The criminal investigation brought by the public prosecutor against Fed Chair Jerome Powell were apparently not welcomed by markets. We think it is likely that a sharper rise in U.S. Treasury yields was avoided mainly because Powell and others defended the Fed and themselves solidly.

The announcement of Donald Trump's preferred candidate to succeed Jerome Powell contributed to fresh volatility. Kevin Warsh is seen as experienced, independent and pragmatic but more of an inflation hawk than dove. Treasury yields reacted least. The dollar re-couped some of its losses from earlier in the year. But the most notable reaction was that the prices of gold and silver collapsed (the latter losing up to 40% over three trading days), bringing to an abrupt end their recent meteoric rallies. Bitcoin also fell back hard, to its April 2025 level. That Warsh objected to the Fed's quantitative easing may be the biggest reason: loose U.S. money may not return with Warsh in charge. But we doubt that Warsh will bring an end to the so-called de-basement trade in which investors aim to hedge against a structural decline in the value of the dollar and U.S. assets in general.

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Trump's efforts to acquire Greenland also shook markets. But, as has happened before, Trump was quick to retreat when he found himself facing stubborn resistance and a strongly negative market reaction. Europe is quite important for many U.S. corporations' sales, so from a markets' point of view it would not be wise to completely alienate the continent. But Trump nonetheless gave U.S. corporate executives a major headache over something else. From real-estate companies to credit-card firms to health insurers, several companies suffered double-digit share-price losses[1] as the White House appears increasingly fond of imposing price-control measures to rein in inflation.

1.2 Many relaxed, some nervous asset classes

Despite all this, most asset classes ended January in positive territory – at least in dollar terms. Anyone wondering quite how they did this should keep four things in mind: 1. Economic data remains slightly positive overall; for example, consensus U.S. growth forecasts for 2026 have been raised from 1.45% in March to 2.4% now. Even for Europe, the consensus among strategists and economists recently nudged growth expectations for this year up from 1.1 to 1.2%. 2. Recession fears have declined significantly in recent months. 3. Interest-rate cuts by the Fed are still expected, even if they will happen later, and perhaps less often, than previously thought. 4. Investors expect double-digit earnings growth for the major stock markets.

However, U.S. Treasuries only broke even thanks to interest payments, since 10-year yields rose from 4.12 to 4.34%. Corporate bonds performed better, especially those in Europe. But the real action in January was not in bonds (Treasury volatility fell to a 3-year low) but in equities and commodities. With a gain of 2.2%, the MSCI World Index went up considerably. Higher excitement came at the sub-index level, however. South Korea's Kospi surged by up to 24% at its peak, thanks to its semiconductors and robotics. And, in general, hardware outperformed software in January: software stocks lost 13%, hardware only 1.6%. The scarcity caused by AI-driven demand, especially for memory chips, helped hardware: Hynix, a South Korean semiconductor company, for instance, rose by almost 40%.[2] Meanwhile concerns about AI competition weighed on software.

But overall it was not a good month for tech stocks; it was mining and energy stocks that did better, thanks especially to the sharp price spikes in precious metals. Silver rose by 70% since beginning of January, before the last two trading days of the month reduced the gain to 19%. The probabilities for the price drops in gold and silver on those two days were so low (silver's drop on Friday corresponded to a 10-sigma event) that some risk models were likely thrown off balance and some investors jolted awake. Finally, the oil price saw its first significant jump (Brent crude up 13%) in five months, amid heightened tensions in Venezuela and even more so in Iran.

2 / Outlook and changes

We must acknowledge that we are walking, at present, a thin tightrope between what we believe to be a benign medium-term outlook and big short-term risks of market dislocations and geopolitical dangers. Two examples: there have been extreme moves in precious metals so far this year; and the South Korean Kospi stock-market index is up by 130% since Donald Trump's 2 April, 2025 Liberation Day tariff shock. Now, we seem only one step away from an escalation of the crisis in Iran, and there seems to be at any time the possibility of another surprise move from Donald Trump, another punitive tariff tweet, another twist in the yet unfinished Fed chair succession.[3] On the positive side, the most recent macroeconomic data seems to confirm our constructive economic outlook for the current year. Investors keep on puzzling, however, over the mismatch between very low consumer sentiment in the U.S. and consumer spending that looks ok. This, we believe, is a typical sign of the K-shaped economy in the U.S., where the bottom segments of the population are struggling with the cost of living, while the better off are enjoying the wealth effect of rallying asset markets.

[1] Bloomberg Finance L.P. as of 2/3/26
[2] Any mentions of specific securities are for illustrative purposes only and should not be considered a recommendation.
[3] Republican Senator Thom Tillis is still vowing to block all Fed appointments until the criminal probe by the Department of Justice is resolved, while Donald Trump is not backing off from the investigation. (Bloomberg 2.2.26).

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2.1 Fixed Income

A slow acceleration in growth around the globe, inflation rates falling toward central-bank targets, record-high corporate-bond issuance and an ongoing debate about the longer-term debasement risk (continuous devaluation of fiat currencies, mainly the dollar) are the complicated playing field for fixed-income markets at the beginning of this year. We expect two rate cuts from the Fed this year and none from the European Central Bank (ECB). The Reserve Bank of Australia can be seen as an outlier: It raised rates on 3 February, to 3.85%, and becomes the first G10 central bank to do so in the current cycle.

Government Bonds

The only thing that markets seemed to agree upon after the nomination of Kevin Warsh as new Fed Chairman seemed to be that he is certainly not the most dovish of candidates. To what extent he will meet the U.S. administration's preference for a loose monetary policy is therefore a big point of discussion. Already, before his nomination, markets had become less optimistic about Fed rate cuts for this year. The consensus view is down to two cuts by year-end, with the first not priced in until end July, in line with our view. For the time being we are sticking to our overweight position in 2-year and 10-year U.S. Treasuries. We recently dropped our positive rating for 2- and 10-year Bunds as they failed to act as a safe haven[4] during the recent market ructions.

Corporate Bonds

Although spreads are historically very tight, demand seems to remain unabated. Bloomberg reported that by 2 February global bond sales so far this year had reached USD 1 trillion, their fastest pace ever. Supply and demand thus seem to be balancing at a high level. With corporate fundamentals looking solid (apart from idiosyncratic risks in the high-yield space related to recent U.S. policy uncertainty), we remain strategically constructive for this segment, but tactically neutral.

Emerging Markets

No changes for emerging-market (EM) sovereign bonds and credit. Rated neutral overall.

Currencies

In late January we moved to an overweight on the euro versus the U.S. dollar, triggered not least by the Greenland episode. It appears to have led some European investors to rethink their global asset allocation and their exposure to the U.S. President Trump's threat to punish European investors who sell U.S. assets reinforced the "sell America" trade – the opposite of what Trump had intended. The dollar also looks weak against many EM currencies which we see as undervalued.

2.2 Equities

All about tech and AI? While the headlines might suggest so, markets are telling a different story: that of a broadening rally. Value has been the flavor of the month, and we believe this can continue. In fact, looking back over a period of five years, European banks (value) have outperformed the Magnificent 7 (growth, predominantly) significantly: over 400% vs. 230%, and currency movements had almost no impact. The AI theme offers many interesting investment points, but we believe it is wise to focus on segments which have bottlenecks. We stick to our view that a broadly diversified portfolio, geographically and by sector, is likely to serve investors best in a world in which U.S. tech companies have both the highest growth rates and the highest valuations. We have not made any signal changes on a regional and sectoral level in January.

U.S. Market

The curse of success. Looking at the earnings season after roughly 170 companies, accounting for 50% of earnings, have reported, the Magnificent 7, which we have in fact enlarged to the Great 10[5], have shown 4Q25 earnings-per-share (EPS) growth of 24%, while the remaining 490 companies reported only 5% year-over-year growth. In January, however, the Great 10 underperformed the other 490 companies. Our preferred sectors are: financials, healthcare, utilities and communication services.

[4] Financial safe havens are investments or assets that are expected to retain or increase in value during times of market turbulence.
[5] AMD, Amazon, Apple, Broadcom, Microsoft, Nvidia, Alphabet, Meta, Netflix and Tesla.

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European Market
Economic data has kept coming in slightly better than expected, interim threats of additional tariffs from Donald Trump have quickly abated, and France has passed its 2026 budget. Aside from these broadly positive developments, Europe has served as a hedge against U.S. IT volatility, as we had expected. We remain constructive.

German Market
Germany remains our preferred market in Europe. Government investment projects are finally hitting the road and are visible in national order intakes. Furthermore, we believe that the headwinds for the automotive industry should abate this year.

Emerging Markets (EM)
Emerging markets continue to offer various interesting investment stories. Latin America is profiting from the commodity boom and political change. Asia is profiting from increases in regional trade and its role as an important player in the supply chain for the AI boom. A weakening dollar also favors the region in our view.

Japan
We believe Japanese financial markets can continue to benefit from the momentum that the new prime minister has brought to the table. Wage growth and inflation have reached levels not seen for years, offering domestic-oriented companies much more leeway in pricing. Exporters meanwhile continue to profit from the weak yen and a slightly improving global manufacturing cycle. Besides this, Japanese equities could offer a hedge to the AI trade, as they have only indirect exposure.

2.3 Alternatives

Gold
Our existing view recognized that fundamentals did not justify the extreme rally in metals, and the correction in the last trading days in January validates that caution. With real bond yields bouncing, we think tactical downside risks for precious metals remain elevated – particularly for silver. We continue to prefer the yellow to the white metal given silver's speculative excesses and steeper positioning risk.

Oil
We see a rangebound crude environment dictated by the competing pressures from geopolitics and inventories. Fresh macro volatility stemming from risk-off sentiment in Tech and the potential new, perhaps more hawkish Fed chair, Kevin Warsh, has added an additional headwind for commodities broadly. Warsh may bolster the dollar with tighter monetary policy and thereby exert marginal downward pressure on energy prices. But the structural drivers for oil remain largely unchanged.

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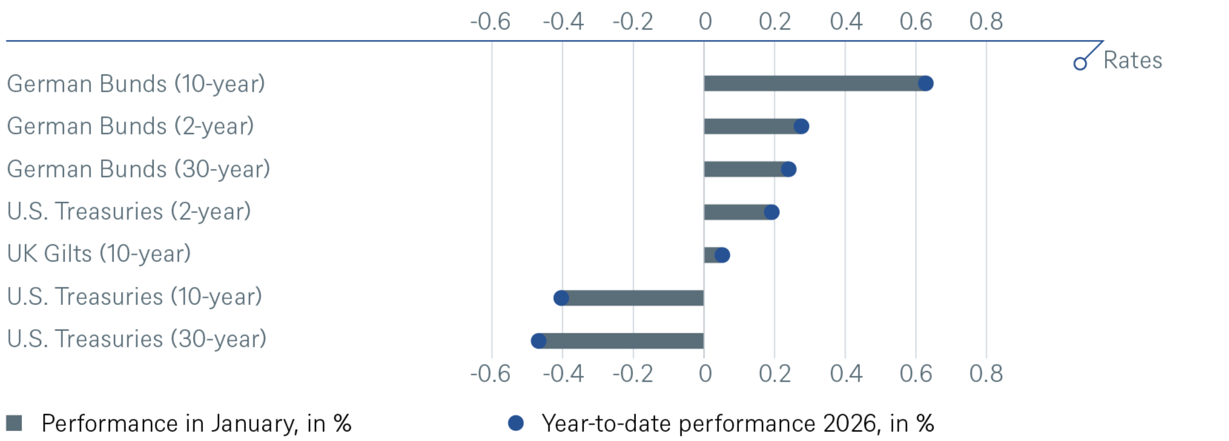
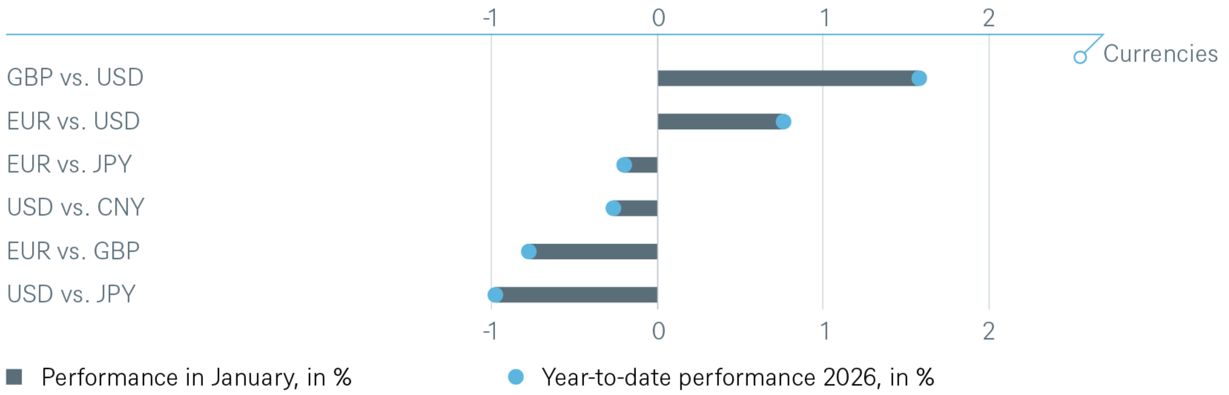
3 / Past performance of major financial assets

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





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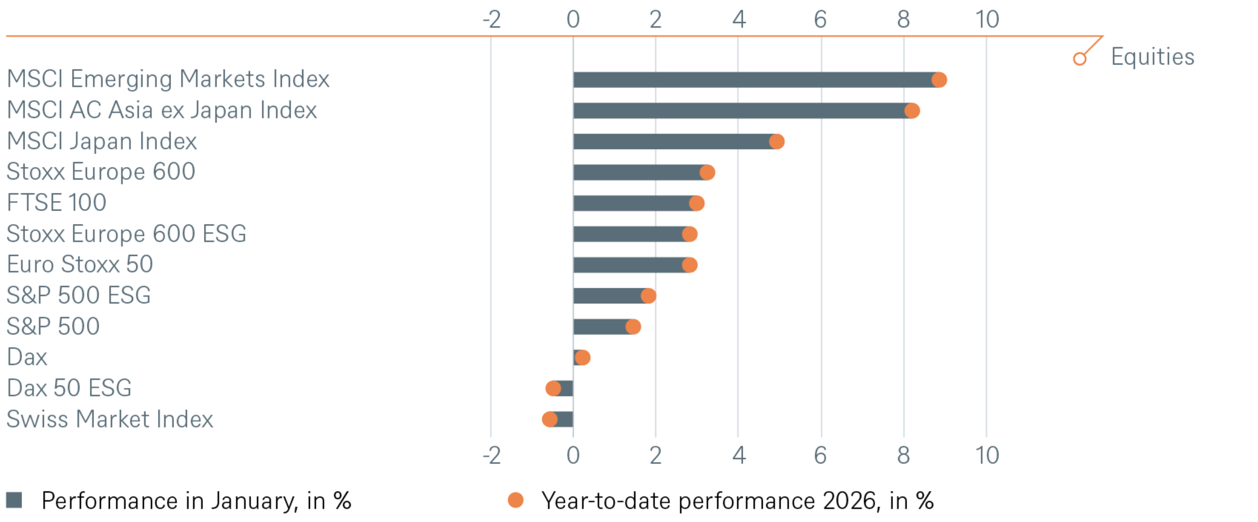

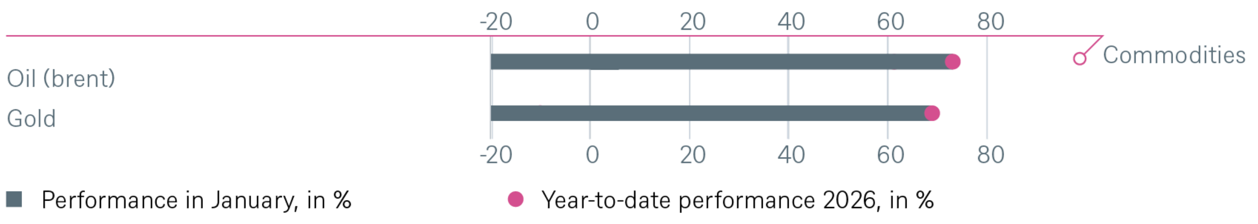

Past performance is not indicative of future returns.
Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 1/30/26

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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 Dec 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 Dec 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 Dec 2026
Covered bonds[1]	🟡	🟢
U.S. municipal bonds	🟡	🟢
U.S. mortgage-backed securities	🟡	🟢

Currencies	1 to 3 months	through Dec 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 Dec 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 Dec 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 December 2026

- 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

Bitcoin is the first and largest crypto asset, enabling decentralized peer-to-peer transactions.

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

Brent crude is a grade of crude oil dominant in the European market.

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

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

Doves are in favor of an expansive monetary policy.

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 European Central Bank (ECB) is the central bank for the Eurozone.

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

Fiscal policy describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

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

Growth stocks are stocks from companies that are expected to grow significantly above market average for a certain period of time.

Hawks are in favor of a restrictive monetary policy.

A hedge is an investment to reduce the risk of adverse price movements in an asset.

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

Idiosyncratic risk is a risk which is related solely to the individual company and has no correlation with the general market risk.

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

The Japanese yen (JPY) is the official currency of Japan.

The Korea Stock Price Index (KOSPI) captures the performance of the 759 companies listed on the Korean stock market.

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

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

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

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.

In economics, a real value is adjusted for inflation.

A recession is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

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.

Sigma in the context of statistical distributions is synonymous to one standard deviation from the mean.

The spread is the difference between the quoted rates of return on two different investments, usually of different credit quality.

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 Group of 10 (G10) refers to a group of eleven leading industrialized economies in the world. The member countries are: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, United Kingdom and United States. They meet to consult and co-operate on economic, monetary and financial matters.

Risk-on/ risk-off describes an investment behavior that is only based on a changed risk perception.

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).

Value stocks are stocks from companies that are trading at prices close to their book value and that are therefore cheaper than the market average on that metric.

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.

The White House is the official residence and principal workplace of the President of the United States.

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