

Market Outlook

Marketing material

#1 Market & Macro

Optimistic, yes — euphoric, no: Don't overlook the risks in the markets



Vincenzo Vedda

Are markets chronically optimistic, realistic, or even blind to risk? There is no definitive answer to that question. “What is clear is that we are operating in an environment of significantly heightened uncertainty,” says Chief Investment Strategist Vincenzo Vedda.

“We believe the medium-term outlook for the capital markets remains constructive. At the same time, short-term risks of extreme market reactions should not be underestimated.” One indication of this fragile, two-sided environment: the dramatic price slumps in gold and silver at the end of January. Another: the rapid surge of South Korea's KOSPI index, which has soared an astonishing 130 percent since the first tariff shock triggered by U.S. President Trump on April 2, 2025. Almost anything seems possible — both on the upside and the downside. A dose of realism is warranted when examining artificial intelligence (AI) and technology more

broadly. They are no longer the sole catalysts driving equity markets. “We see equity market gains now resting on a broader foundation,” Vedda notes. Even value stocks have delivered substantial returns, at times outperforming the celebrated “Magnificent Seven” U.S. tech giants. European banks, for example, have posted gains of more than 400 percent over the past five years. Still, artificial intelligence remains perhaps the hottest theme, with enormous disruptive potential. But the label alone should not dictate investment choices. “

AI will continue to create compelling investment opportunities. However, we believe it is wise to focus on those segments where bottlenecks are likely to emerge,” Vedda explains. A bit of caution is a good idea right now. “We maintain our view that a broadly diversified portfolio — both geographically and across sectors — will likely serve investors best in a world where U.S. technology companies combine the strongest growth rates with the highest valuations.”

Topics driving capital markets



Economy: Mixed signals from the U.S., brighter sentiment in Germany

- The latest consumer confidence reading delivered an unwelcome surprise: U.S. consumer sentiment in January fell to its lowest level in more than a decade. In contrast, the University of Michigan's sentiment index painted a more upbeat picture, climbing to its highest level in five months.
- Germany, meanwhile, saw an improvement in business sentiment. The latest Ifo Business Climate Index signaled a noticeable pickup in optimism within the industrial sector.



Inflation: Energy prices push up Germany's inflation rate

- In Germany, the inflation rate unexpectedly rose to 2.1% in January (December: 1.8%), defying market expectations. Although energy prices were 1.7% lower year-on-year, they increased on a monthly basis — mainly due to the hike in CO₂ prices from EUR 55 to EUR 65 per tonne. Food prices also ticked higher again.
- In the eurozone, by contrast, inflation eased. Thanks to declining energy costs, the inflation rate fell to 1.7% in January (December: 2.0%).



Central banks: Fed pauses further rate cuts for now

- The U.S. Federal Reserve left its benchmark interest rate unchanged at 3.5% to 3.75% during its January meeting, following three consecutive rate cuts. Fed Chair Powell explained the decision by noting that inflation remains somewhat elevated, while the unemployment rate appears to be stabilizing.
- Given the moderate inflation rate in the eurozone, we do not expect the European Central Bank to cut interest rates further this year.



Risks: Geopolitical uncertainty and political instability

- In Europe, we see risks stemming from political instability, renewed trade tensions, and the potential impact of geopolitical uncertainties.
- High valuations and significant market concentration in artificial intelligence and technology stocks overall are making the U.S. equity market increasingly vulnerable to corrections.

#2 Equities

European equities: growing opportunities in dividend stocks



Madeleine Ronner

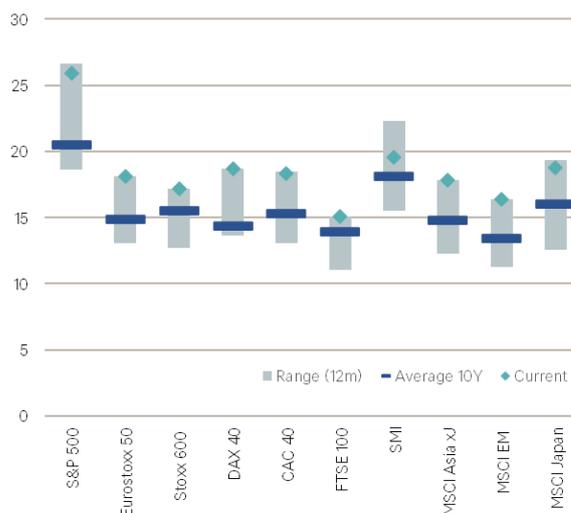
“Offense wins games, defense wins championships,” the saying goes in sports. “There are certainly parallels in the equity market,” says portfolio manager Madeleine Ronner. In phases of declining interest rates and abundant liquidity, offensive investment styles such as growth and high beta — a strategy focused on securities that tend to fluctuate more sharply than the overall market — often outperform in the short run. For long-term wealth creation, however — the “championship,” so to speak — a portfolio must be able to withstand different market cycles. What matters most, in our view, are reasonable valuations of earnings growth along with strong balance-sheet and business-model quality. This is where more defensive strategies can have the edge over the long term, such as dividend-focused approaches. These can play an important role in the widely discussed topic of diversification within the equity asset class.

Selected dividend stocks offer the potential for regular payouts and dividend growth. “That can help support real returns against inflation and interest-rate uncertainty,” Ronner notes. Looking specifically at Europe as an investment region, Ronner currently sees growing opportunities in dividend-oriented stocks. With European equities having become more expensive, dividends are now almost the only remaining factor still trading at comparatively attractive valuations. Ronner says: “Dividend investments are currently a worthwhile way to bring genuine diversification into a portfolio — and at an appealing valuation.” As for the broader outlook for European equities compared to U.S. stocks: Europe already experienced a modest renaissance in 2025. While European shares still trade at a discount to those in the U.S., they managed to close part of that gap in 2025. A large portion of their performance, however, was driven by multiple expansion. In the U.S., by contrast, rising corporate earnings have been the key driver of stock prices.

For European equities to perform well, we need to see stronger earnings growth,” Ronner explains. The artificial-intelligence cycle, she adds, has become riskier — marked by exceptionally high investment requirements that will first need to materialize into tangible returns. This makes it worthwhile again to look at market segments that are valued more in line with, or even below, their long-term historical averages. The fact that stocks in the energy, materials, industrials, and consumer sectors led the market in January, while technology names lagged, fits this picture.

Equity markets: None are cheap right now

Price-to-earnings ratio based on expected earnings over the next twelve months



Sources: Bloomberg Finance L.P., DWS Investment GmbH, as of: end of January 2025

Equities USA: Tech stocks: Earnings growth remains robust



- The earnings performance of the ten largest U.S. technology companies in the S&P 500 remains impressive: profits rose 24 percent in the fourth quarter of 2025. The remaining 490 companies achieved earnings growth of five percent. Nevertheless, the ten tech stocks underperformed the broader market.
- Our current favorites come from the financials, healthcare, utilities, and communication services sectors.

Equities Germany: Preferred market within Europe



- The German benchmark index, the Dax, was unable to maintain the momentum it showed at the beginning of the year. Nevertheless, Germany remains our preferred equity market within Europe.
- Government investment is gradually feeding through to corporate order books. In addition, we expect the headwinds facing the automotive industry to ease.

Equities Europe: Effective diversification beyond U.S. tech stocks



- The conditions for European equities appear supportive: Economic data has come in slightly better than expected, temporary threats of additional tariffs by Donald Trump have dissipated for now, and France has approved its budget for 2026.
- We also view European equities as a diversification tool.

Emerging Markets: Opportunities in Latin America and Asia – supported by a weak dollar



- We see a range of compelling investment opportunities across emerging markets. Latin America is benefiting from the ongoing commodities boom and shifting political dynamics, while Asia continues to gain from strengthening regional trade and its role as a key player in the supply chain behind the AI boom.
- In our view, a weaker U.S. dollar further enhances the region’s attractiveness.

#3 Multi-Asset/Fixed Income

Diversification remains essential – precisely because markets are so optimistic



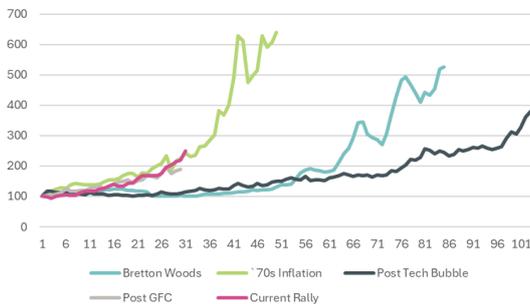
Vera Fehling

Gold and silver continue to rank among the top asset classes, even though prices temporarily dropped sharply at the end of January. Since the start of the year, gold is up 15 percent and silver even 23 percent. “The U.S. dollar and the Swiss franc — which are traditionally also viewed as safe havens — are not fulfilling that role at the moment. The same applies to government bonds,” says Vera Fehling, Chief Investment Officer for Western

Europe. Yields on long-term government bonds have risen or, at best, stagnated — which means prices have generally declined. In fact, there are several reasons why markets might be expected to show a degree of nervousness: high equity valuations and extremely low credit spreads in corporate bonds. However, bond markets seem unperturbed. The MOVE volatility index for bond markets has been declining for quite some time. And in the corporate bond space, there is currently little to indicate that credit spreads are widening across the board. What does this mean for portfolio positioning? “We continue to rely on a balanced mix,” says Fehling. For equities, the earnings season will be decisive. As long as corporate earnings remain solid, this should support stock prices. Corporate bonds also remain a meaningful diversification tool. And gold? “We believe the fundamental case for gold purchases remains intact, especially as major central banks still intend to increase their holdings,” Fehling explains. After the strong price increases of recent months, pullbacks — such as the one seen at the end of January — are not surprising and, in fact, a healthy development.

Today’s gold rally is not unprecedented

Major historical surges in the gold price, indexed to 100



* GFC: Global Financial Crisis; Sources: Bloomberg DWS Investment GmbH, DWS Investment GmbH, as of: 31.01.2026

U.S. government bonds (10 years)

Bright prospects



short-term



long-term

- We remain optimistic about the performance of U.S. Treasuries.
- We expect a slight decline in yields.

German government bonds(10 years)

Yields likely to decline slightly



short-term



long-term

- Bunds were unable to fulfill their role as a safe haven during the recent market turbulence.
- By December 2026, we expect a slight drop in yields.

Emerging Market sovereign bonds

Higher return potential comes with higher risks



short-term



long-term

- Our assessment of emerging-market bonds has not changed recently.
- Yield levels remain attractive, albeit with correspondingly higher risks.

Credit

Investment Grade

USA

Eurozone



short-term



long-term



short-term



long-term

High Yield

USA

Eurozone



short-term



long-term



short-term



long-term

#4 Currencies

Euro/Dollar: Political turbulence likely to strengthen the euro



short-term



long-term

- At the end of January, we shifted to an overweight position in the euro versus the U.S. dollar, driven in part by the dispute over Greenland. This prompted European investors to reassess their global asset allocation and their exposure to the dollar and the United States.
- President Trump’s threat to penalize European investors who sell U.S. assets further intensified the “Sell America” movement.

#5 Alternative Assets

Gold: Demand likely to remain strong, but price momentum to ease



short-term



long-term

- In our view, the gold rally at the beginning of the year was not supported by fundamental data. The temporary, sharp price drop at the end of January was a warning sign.
- We believe the risk of setbacks has not yet been eliminated, although we are more optimistic about gold than silver.

Glossary

Base point

One basis point is equal to 1/100 of a percentage.

Dax

Market capitalization-weighted index, with the 40 most important listed companies in Germany. Performance index, which includes dividend payments.

High yield (HY)

High yield bonds issued by issuers with poor credit ratings, which usually offer comparatively high interest rates.

Investment grade (IG)

Corporate bonds that are considered by rating agencies to be at low risk of default (at least medium credit rating).

Move Index

Measures the expected volatility of U.S. Treasury bonds. A high reading indicates that significant movements in interest rates are anticipated, while a low reading suggests the market expects stable rates.

MSCI Emerging Markets

Index that tracks large and mid-cap stocks from 23 emerging markets.

Yield

The income generated by an investment expressed as a percentage of its current price.

S&P 500

Market capitalization-weighted stock index that tracks the top 500 publicly traded U.S. companies.

Stoxx 600

Equity index of European companies in the large, mid and small cap segments.

Volatility

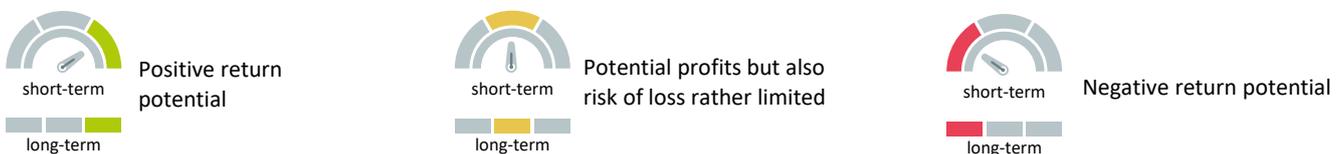
Statistical key figure that indicates how much prices or yields fluctuate around their mean. Indication in percentage.

Legend

The strategic view by December 2026

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 5 February 2026



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