

# Market Outlook

Marketing material

## #1 Market & Macro

### Promising year for equities in 2026 – but diversification remains important



Vincenzo Vedda

"The outlook for global equities in 2026 is positive. We expect an environment that supports risk assets such as equities and corporate bonds," says Chief Investment Officer Vincenzo Vedda. He cites moderate economic growth, favourable financing conditions and an overall neutral

to accommodative monetary policy, especially in the US. Vedda also expects stable framework conditions for Europe, which would be supported by government investment programs – especially in Germany. The slower price increases are also likely to prove beneficial. In addition to Europe and the USA, Vedda also sees positive developments in Asia: The major economies are increasingly relying on technology as a growth driver, incomes are rising, and the willingness to reform is growing. "We see double-digit return opportunities for

equities overall," says Vedda. However, the high concentration on a few stocks in the USA warrants caution. "In our opinion, global diversification therefore remains a key element that should be taken into account in any investment strategy," says Vedda. In the short term, the investment strategist sees two other possible risks: The cash ratios of fund managers have fallen to a record low level. In addition, optimism in the market is extremely high, both classic contrarian indicators. But over the course of the year, Vedda believes that the expected growth rates in corporate profits – he expects more than ten percent for the USA – should create a positive environment. If the setbacks that have been hotly debated for several months regarding the major beneficiaries of the artificial intelligence boom occur, for example due to overcapacity or excessive investment spending, he sees these more as tactical entry opportunities rather than a signal for a permanent exit.

## Topics driving capital markets



### Economy: Consumers support the US economy surprisingly strongly

- Americans' willingness to spend pushed US growth in the third quarter to a surprisingly high 4.3 percent. AI-related investments and further interest rate cuts are likely to support growth in 2026 as well.
- In Europe, the consequences of the trade conflict with the USA are unlikely to be as severe as originally feared, but the growth prospects for 2026 are only half as strong as in the USA.



### Inflation: Trade conflicts are price drivers in the USA – positive trend in Germany

- The US trade conflicts mean that the decline in the inflation rate in the USA is proving difficult. The 2 percent target is likely to be missed by a wide margin in 2026 as well, with an inflation rate of 2.9 percent.
- 1.8 percent inflation – in Germany, the target of two percent was undershot for the first time in December. Price drivers continue to be significantly rising service prices.



### Central banks: Further easing expected in the US, probably no interest rate changes in the eurozone

- The US Federal Reserve is likely to cautiously continue its interest rate cut course. We expect two more rate cuts by December 2026.
- The European Central Bank is likely to continue its steady-hand course. At the moment, there are no reasons why the monetary authorities should change interest rates in 2026.



### Risks: Trade conflicts and possible overinvestment in artificial intelligence

- If the numerous trade conflicts intensify again, this could limit the US Federal Reserve's room for manoeuvre to stimulate the economy by cutting interest rates.
- For the stock markets, especially in the USA, a key factor will be whether the high levels of investments in artificial intelligence will also be reflected in corresponding productivity gains.

## #2 Equities

### Why the Dax should still have potential even after record highs



Sabrina Reeh

New highs for the German leading index Dax: on January 7, it broke through the 25,000 point mark for the first time. In the past twelve months, the price increase thus adds up to 24 percent. How much further potential is there? "I still see significant price potential, despite the considerable price gains we have seen recently", says portfolio manager and expert on

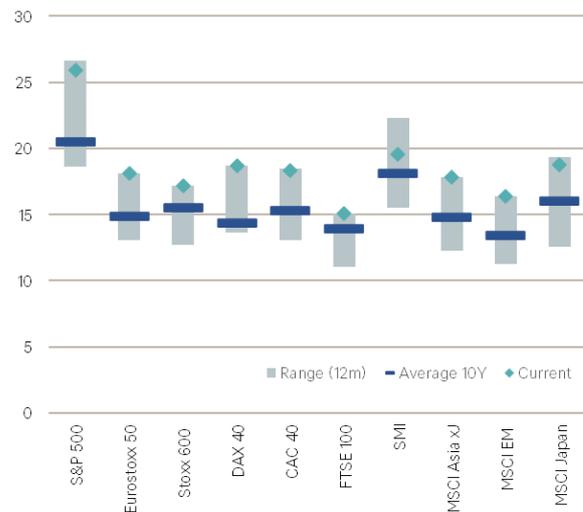
German equities, Sabrina Reeh. The price gains last year were characterised by a few stocks, similar to 2024. "We also have a positive view of German equities in 2026. Among other things, because we expect more market breadth and depth, especially if there is an economic recovery," says Reeh. One decisive factor: the expected increase in profitability. The market consensus expects profit growth of around 16 percent for the Dax companies for the 2026 financial year. The largest contribution is likely to come from the automotive sector, followed by the industrial sector. A large part of the expected profits will be underpinned by cost measures that have already been initiated.

"We also see opportunities in companies that benefit directly from German stimulus and NATO spending. Industrial stocks and construction companies are likely to be beneficiaries of the government stimulus package, falling energy prices and the expected economic recovery," Reeh said. The financial sector also remains promising. The valuation of the Dax is no longer favourable with a price-earnings ratio of 16. Nevertheless, the relative valuation remains attractive, as other European indices have also risen. In addition, it should be taken into account that the lower historical average valuation of 13 is due to the change in the index share of technology companies that is higher today,

while classic, lower-valued sectors such as chemicals and automotive have lost weight," says Reeh. If valuation multiples remain stable and earnings forecasts are met, corporate profits could fundamentally justify a price level of over 30,000 points in just two years. Despite all the positive prospects, there are of course also risks: delays in the implementation of the infrastructure package, a significant deterioration in the US economy and a further worsening of the geopolitical situation.

#### Equity markets historically highly valued

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



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

#### Equities USA: Positive outlook – Artificial intelligence is likely to remain a price driver



- We are positive about the outlook for US equities. Our favourites include selected technology stocks, utilities and banks. Energy suppliers are likely to benefit from the increased demand for electricity induced by artificial intelligence.
- The high valuations of some mega-caps, i.e. companies with very large market capitalisations, and the interest rate cuts already priced in by the market are potential risk factors.

#### Equities Germany: Upturn likely to continue



- After a six-month period of stagnation, the Dax has risen to new heights. We think that there are good reasons why the positive development can still continue (see above).
- The valuation discount compared to US stocks has fallen and is currently 35 percent. However, this is still well above the long-term average of 22 percent.

#### Equities Europe: Possible good complement to US stocks – promising small caps



- We expect single-digit earnings growth for European companies, broadly distributed across all sectors. Europe cannot keep up with the pace in the USA. However, attractive valuations and a lower dependence on technology companies are advantages, especially from the diversification aspect.
- Selected European small caps could particularly benefit from an improved economy.

#### Equities Japan: Temporary weaknesses could be buying opportunities



- Japan is benefiting from solid wage increases, buoyant tourism demand and a central bank that is likely to continue its normalisation path in interest rate policy.
- However, a possible appreciation of the yen and burdens from tariffs could affect the strongly export-oriented country. We see possible temporary weaknesses in quality stocks as potential entry opportunities.

### #3 Fixed Income

## Corporate bonds with good credit ratings – sensible possible addition to the portfolio



Tanja Siegrist

"In our view, corporate bonds are currently a sensible addition to a portfolio from a risk-return perspective," says portfolio manager Tanja Siegrist. This applies in particular to euro corporate bonds with good credit ratings. Although the lending premiums are at historically low levels and a further narrowing is not to be expected. The broad market for euro corporate bonds nevertheless offers interesting yields of around 3.2 percent. By comparison, the deposit rate of the European Central Bank is currently 2.0 percent. An increase in new issuance is expected in 2026, especially due to the need for financing AI investments. This could offer investors more diversification in the segment of corporate bonds with very good credit ratings.

#### Market should digest high issuance volume well

In general, however, a higher issue volume is accompanied by the risk of rising yields and thus price losses – yields and prices for bonds develop in opposite directions. Siegrist, however, largely gives the all-clear here: "In our opinion, demand for corporate bonds should remain high due to the still attractive yield levels, and corporate balance sheets look largely solid. That's why we don't expect prices to come under more pressure." The current high yields could also at least partially mitigate the impact of a possible expansion of credit spreads.

#### High-yield bonds – selective opportunities with high risk

In the case of riskier high-yield bonds, the risk premiums are also at a very low level. This could raise the question for individual issuers as to whether the risks would still be sufficiently compensated for by the returns. However, Siegrist does not see a general problem in the market. So far, loan defaults have not been assessed as systemic risks, but as individual cases. The market has recently developed quite differently. Siegrist sees selective opportunities in high-yield bonds with a lower rating – B and lower – because the risk premiums are still right here. However, the higher risk of default requires a comprehensive fundamental analysis of the companies. In the case of higher-quality issuers with a BB rating, on the other hand, the risk premiums are often too low.

#### U.S. government bonds (10 years)

##### Attractive returns



- The yield on ten-year US bonds is likely to be in a range of 3.75 to 4.25 percent.
- The yield level remains interesting.

#### German government bonds(10 years)

##### Yields could fall slightly



- Yields on 10-year Bund bonds are currently slightly above our target of 2.70% (Dec. 26).
- We expect a slight narrowing.

#### Emerging Market sovereign bonds

##### Higher risk, higher returns



- Demand has remained high recently, and interest spreads have declined.
- Nevertheless, the yield level remains attractive, with correspondingly higher risks.

#### Credit

##### Investment Grade

USA

Eurozone

##### High Yield

USA

Eurozone



### #4 Currencies

#### Euro/Dollar: Dollar likely to stabilise against the euro



- We do not expect the euro to continue to strengthen against the US dollar. The US currency is likely to stabilise, and the better US growth prospects are likely to support the dollar.
- Capital outflows from the US currency to the euro have not yet occurred to the extent expected by some market observers.

### #5 Alternative Assets

#### Gold: Demand is likely to remain high, but price momentum will flatten out



- Gold is likely to remain in demand. Inflows into gold ETFs have continued after the US Federal Reserve cut interest rates in December.
- The expected further interest rate cuts by the US Federal Reserve and the continued high interest from investors who see the precious metal as a risk hedge are likely to support the gold price. However, we no longer expect prices to rise as rapidly as they have in the past twelve months.

## Glossary

### Base point

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

### B-rating for corporate bonds

Significantly riskier than BB bonds. Issuer has sufficient credit rating, but the ability to pay off debt is at risk. Risk of default: High. Economic weakness or market fluctuations can quickly lead to payment defaults.

### BB rating for corporate bonds

Speculative bonds, but still relatively solid within the high yield space.

### Bloomberg Aggregate Total Return Index

Broad bond index that measures the performance of the entire U.S. investment-grade bond market. Often used to compare the performance of bond funds or bond strategies.

### Creditworthiness of bonds

Describes the creditworthiness of the issuer – i.e. how likely it is that interest and repayment will be made on time and in full.

### 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).

### MSCI ACWI

Global stock index that tracks the performance of global stock markets. Includes more than 2,800 stocks from 23 developed and 24 emerging markets.

### 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 12 January 2026



Positive return potential



Potential profits but also risk of loss rather limited



Negative return potential

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