October 2025

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Marketing material

Market outlook

#1 Market & Macro

"Markets with selective perceptions"


Vincenzo Vedda

Markets are nowadays obviously predominated by selective perceptions: chances offered by further rate cuts and Artificial Intelligence keep pushing stock markets on and on, in particular the U.S. stockmarket. The long list of risks – trade conflicts, geopolitical tensions, sticky inflation, political and social uncertainties, a troubled U.S. labor market and weak data from the real estate market – has not yet harmed neither the S&P 500 rebound nor Nasdaq tech papers.

"The ever climbing gold price alone signals a certain need for hedging seen by investors in this situation," DWS Chief Investment Officer Vincenzo Vedda states. No doubt, U.S. equities are expensive. However, expectations of two-digit, IT-driven earnings growth could still justify these high valuations. Corporate bonds, the risk assets among bonds, have proven to be remarkably resilient. They benefit from high demand. It is, above all, retail investors, British pension funds and French insurers, which are massively invested here. Yield spreads of European investment-grade credit versus sovereign bonds have therefore narrowed to 77 basis points – 100 basis points are one percentage point. "This is a level last seen in 2018," Vedda continues. With these valuations in mind, some caution seems advisable here. "A potential stock market correction could have negative effects on the risk tolerance of investors." Yield spreads could widen and prices fall correspondingly. Imagination and reality – the gap between them on capital markets will play a decisive role in further performance. Setbacks cannot be ruled out.

Topics driving capital markets

Economy: sluggish economic growth expected in the United States and the eurozone

- Poor leading indicators – real estate, consumer sentiment – but good hard economic data. These are the keywords to describe the current situation in the United States. All in all, the growth outlook for the United States remains muted (2026: 1.3 percent).
- The unstable political situation in France is a burden not only for the country itself but for the European Union as a whole. Our forecast for eurozone growth for 2026 is a moderate 1.1 percent.

Inflation: Significantly more pressure in the USA than in the eurozone

- Increased or potentially even further rising inflation remains an important topic in the USA although tariffs have not yet completely translated into higher prices. In 2026, inflation might climb to around 3.0%.
- For the eurozone, we expect an inflation rate of 2%, thus significantly lower than in the USA. The main drivers are rising prices in the services sector. Slower wage growth, however, dampens inflation.

Central banks: further rate cuts in the USA expected

- After cutting rates to 4.00 to 4.25% in mid September, the Federal Reserve has hinted at further rate cuts by year-end. The main reason is the markedly weakening labor market.
- In the eurozone, we forecast only one further rate cut. An inflation rate of 2.2% is close to the ECB target, economic forecasts have been revised slightly upwards.

Risks: escalating trade conflicts, increasing geopolitical risks

- Escalating trade conflicts or inflation rates beating expectations could confine the Fed's scope for cutting rates further and be a drag on markets.
- In Europe, further increasing geopolitical instability and fiscal risks – keyword France – could hamper long-term sentiment and the investment climate.

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses which may prove to be incorrect.
Source: DWS Investment GmbH, as of 08 October 2025

#2 Equities

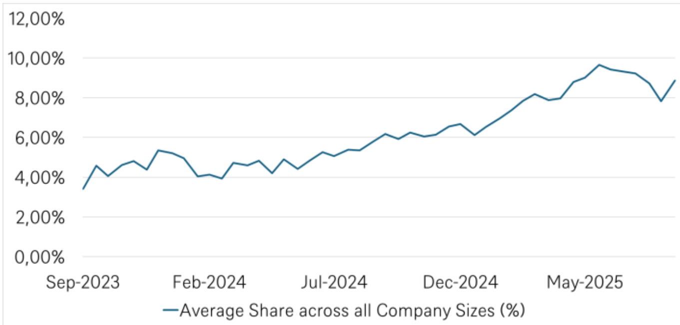
"Investors should not be too greedy"

Andre Köttner

"For several years, we have observed that almost all corporations with the tough luck of being identified as losers of Artificial Intelligence (AI) are being systematically penalized by the stock market. The alleged AI losers might currently offer the greatest chances on the stock market," portfolio manager Andre Köttner argues. Even if these corporations reported the very best figures in the past few years, stock exchanges simply ignored them. Although they managed to continue presenting two-digit sales growth and very high profit margins. There are prominent examples from software or IT service corporations here.
Köttner also focuses mainly on corporations linked with AI or supposed to benefit from AI. However, he also sees partly critically high valuations – such as corporations valued at over hundred times their sales. Such high valuations did not even occur during the dotcom bubble at the end of the 1990s. And it is far from clear for many corporations whether their high investments will really pay. The capital market is fond of catchy narratives which, unfortunately, do not always match reality. Another related issue: In the case of extremely highly valued corporations with quasi-monopoly positions, the question arises whether they are likely to keep this position and make extremely high profits in the long run.
So how to deal with the risk of setbacks? Köttner's strategies are always almost 100% invested in equities. He cannot hold higher liquidity or other asset classes. In order to reduce risks, he uses a so-called barbell strategy: On the one end of the barbell, there are corporations from the tech and AI sector. On the other end, there are, for example, assets from the healthcare sector or consumer staples – boring but predictable business models. There are several corporations in these sectors with rather moderate but reliably predictable growth outlooks and good margins which are expected to make money even in times of crises. "Even in these times, we do not stop buying toothpaste, drinking coffee or undergoing therapies during illness," Köttner argues. With a view to return prospects for the years to come, Köttner is rather cautious. Returns might be somewhat lower than in the previous years. All in all, the development of corporate profits will be the decisive factor. Köttner cautions: "Investors should not be too greedy."

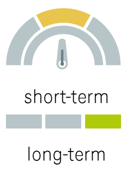
Use of AI in corporations slowing down

Share of corporations having used AI in their manufacturing processes within the last two weeks



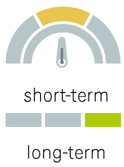
Source: U.S. Census Bureau, Business Trends and Outlook Survey (BTOS) 2023-2025, as of 30 September 2025

Equities USA: Catching up successfully – corporate profits decisive



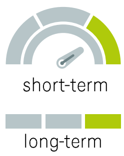
- After lagging behind for a long time, U.S. titles – driven by tech stocks – are having a run and have meanwhile caught up with European markets, at least in dollar terms.
- The trend towards a broad introduction of AI should remain intact. Further upward potential for the already very ambitiously valued U.S. stocks lies, above all, in further rising profits and less so in a widening of valuations.

Equities Germany: Waning momentum and high valuations



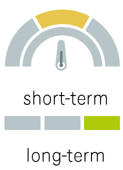
- The German leading Dax has lost some steam in the past few weeks, after pretending for a while to have the momentum to easily cross the 25,000 points threshold.
- German blue chips are meanwhile trading at a valuation premium versus European titles. Further significant price gains should require a better profit situation of corporations.

Equities Europe: Further catch-up potential for European small- to mid-caps



- The profits of European corporations should come under some pressure due to the strong euro. Despite this fact, for the years to come, we forecast an earnings growth per share in the high one-digit range.
- We continue to see some catch-up potential for European small- to mid-caps, which should benefit particularly from fiscal impetus and increased local demand.

Equities Japan: Much depends on global growth



- The Japanese Nikkei 225 has gained 20% year-to-date, with prices rising sharply once again after the election of Sanae Takaichi as prime minister.
- Japan serves as a leading indicator for global growth, partly due to its strong export orientation and international supply chains. In the short run, further upward potential should be rather limited. However, domestic demand, reforms and record-high share buybacks should have positive effects.

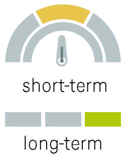
#3 Real estate/Fixed Income

"Attractive entry level in selected sectors"


Anke Weinreich

European real estate markets have experienced a substantial price correction with prices falling by around one quarter. Meanwhile, both, valuation-based and transaction-based real estate indices have returned to a positive path. A good entry point or is the correction still under way? "This is, in our view, quite an attractive entry level in selected sectors. Strong fundamental data should continue to support the recovery of real estate markets. All in all, we register growing demand," portfolio manager and real estate expert Anke Weinreich says.
Due to rather low market liquidity, Weinreich currently observes larger price discounts in major transactions, particularly in the office segment. "This opens up interesting buying opportunities at prices which should be below the long-term fair market value, depending on sectors and markets." Weinreich sees the greatest chances in residential properties because demand clearly outpaces a still very limited supply here. The previously favored logistics sector continues to be attractive since it particularly benefits from increasing investment in infrastructure and defence all over Europe, which should result in long-term growth. Due to rising global trade uncertainties and recently higher project completion figures, this sector, however, must be seen in a differentiated way.
In the segment of office buildings, particularly high-quality properties are promising. On many markets, there is still a lack of prime floor space in good locations.
What is the outlook of open real estate funds versus sovereign bonds? "We try to achieve a positive unit performance with a low volatility," Weinreich adds. This has worked well in the past ten years, as demonstrated by figures published by the Bundesverband Investment und Asset Management (BVI, German Investment Funds Association). During this period, open real estate funds achieved an average performance of 2.1% per year with a volatility of 1.1%.* During the same period, long-term euro bond funds registered an average performance of -0.2% per year with a volatility of 6.6%.*

U.S. government bonds (10 years)
Yield spreads to short maturities should widen

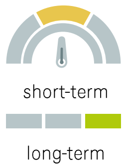


- 10-year U.S. Treasury yields have started to rise again of late.
- Medium-term, the yield spreads to short maturities should widen due to expected rate cuts by the Fed.

German government bonds (10 years)
Slightly falling yields expected

- International investor demand of German Bunds is rising.
- The slight increase of yields in the past few months should therefore not be continued.

Emerging Market sovereign bonds
Interesting returns but risk premiums might rise

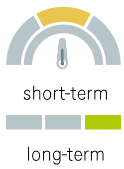


- Emerging Market sovereign bonds are scoring with high total returns.
- However, yield spreads versus sovereign bonds from industrial countries are low. We expect rather slightly higher yields.

Credit

Investment Grade

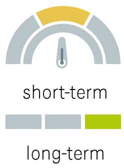
USA



Eurozone

High Yield

USA



Eurozone

#4 Currencies

Euro/Dollar: **Dollar should remain weak versus the euro**

- Expected further rate cuts by the Federal Reserve and accompanying lower yield spreads should result in a continuing weak dollar versus the euro.
- The euro experiences further support from many investors wishing to somewhat reduce their dependence on the dollar. Our euro/dollar exchange forecast by September 2026 is 1.20.

#5 Alternative Assets

Gold: **Rapid rally with new record highs – setback risks if U.S. rate policy stops to play along**

- Gold has topped 4,000 dollars an ounce for the first time and has gained over 50% year-to-date. With a plus of 59%, silver has even beaten this performance in 2025.
- The major impetus has come from the expectation of further U.S. rate cuts, increasing the relative attractiveness of gold versus fixed income. Should things, however, turn out differently, for example because inflation does not recede as expected, the gold price might come under pressure.

Source: BVI Bundesverband Investment und Asset Management e.V. (German Investment Funds Association), investment statistics, as of end of August 2025. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses which may prove to be incorrect. Past performance is not indicative of future results. DWS Investment GmbH, as of 08 October 2025

Glossary

Basis points
One basis point is equivalent to 1/100 of a percentage point, one hundred basis points are equivalent to one percentage point.

Credit Quality of Bonds
Describes the creditworthiness of the issuer – that is, how likely it is that interest payments and principal repayment will be made fully and on time.

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

High Yield (HY)
Corporate bonds from issuers with a poor credit rating – these papers generally offer comparatively high interest rates.

Investment Grade (IG)
Corporate bonds that are deemed by rating agencies to have a low risk of default (at least medium credit rating).

Return
Ratio of outgoing payments to incoming payments of an investment.

S&P 500
Index weighted by market capitalisation that represents the 500 leading listed companies in the U.S.

Stoxx 600
Share index of European companies from the large, mid and small cap segment.

Volatility
A statistical measure that indicates how much prices or returns fluctuate around their mean value. Expressed as a percentage

Legend

The strategic view by September 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 08 October 2025

Positive return potential

Potential profits but also risk of loss rather limited

Negative return potential

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