

# Portfolio Diversifiers

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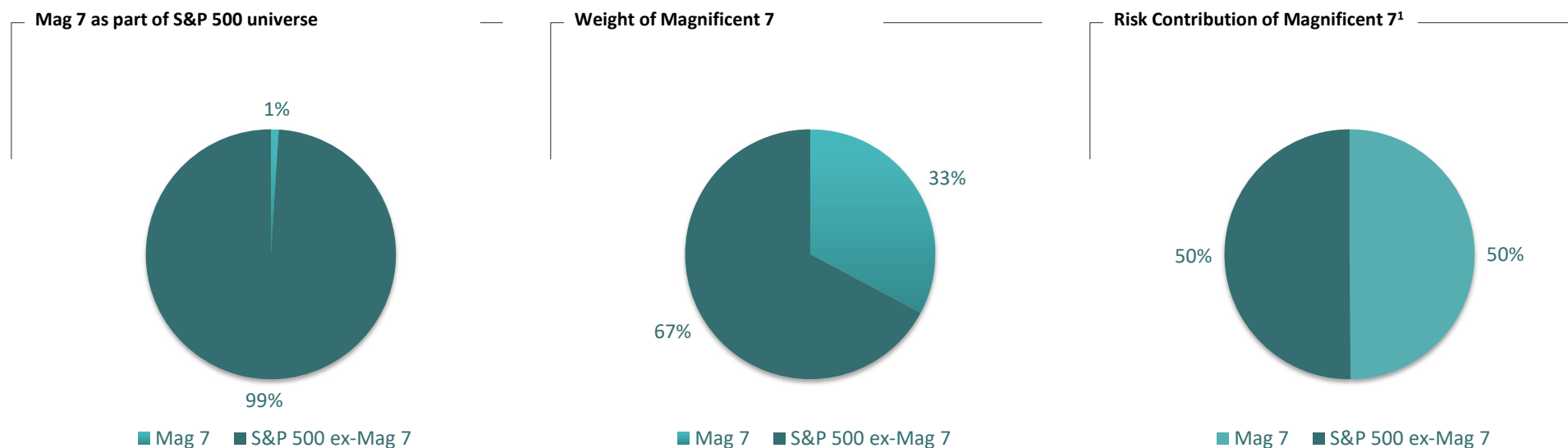
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## Even the Magnificent 7 may face peril

1% of the companies, 33% of the weight, 50% of the risk



- **Historical Context:** The current concentration level in the U.S. stock market is similar to those seen in 2000 and 1929. This could suggest potential market volatility.
- **Potential Risks:** Investing heavily in the Magnificent 7 could lead to an overreliance on these mega-cap stocks, which are sensitive to broad economic conditions, geopolitical risks and future developments in technology.

Source: Bloomberg, as of 12/31/24. <sup>1</sup> Standard deviation is often used to represent the volatility of an investment. It depicts how widely an investment's returns vary from the investment's average return over a certain period.

# Hedging currency risk has reduced risk without sacrificing returns

Over the past 10 years, mitigating exposure to foreign currencies has reduced volatility by 2.8% p.a.



## MSCI EAFE Currency Hedged versus Unhedged

Risk and return statistics (February 2015 to February 2025)

	MSCI EAFE Currency Hedged	MSCI EAFE Currency Unhedged
Return (geometric)	9.0%	5.2%
Return (arithmetic)	9.4%	6.2%
Volatility	12.4%	15.2%
Sharpe	0.62	0.30
Downside Deviation	8.8%	9.6%
Sortino	0.87	0.47
Up Capture Ratio	83.0%	100.0%
Down Capture Ratio	59.3%	100.0%

Source: Bloomberg as of 12/31/2024. Past performance is not indicative of future results. It is not possible to invest directly in an index.

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# Currency spot returns in the long run have been close to 0

Currencies have not demonstrated strong directional returns historically



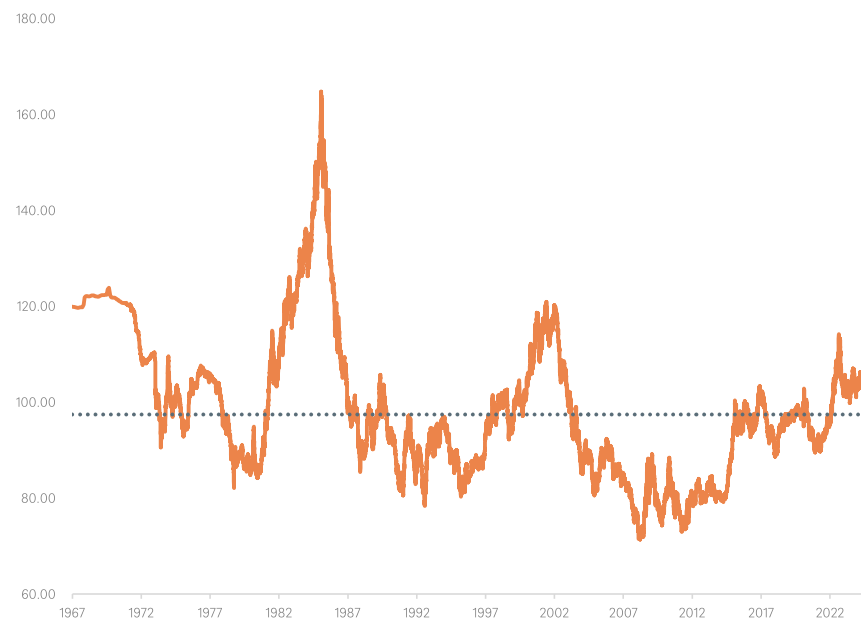
**The Euro has averaged 22bps negative return per annum**

Euro spot value since inception



**DXY since inception has been -1bps per annum**

US Dollar Index since inception



Source: Bloomberg as of 12/31/2024. Past performance is not indicative of future results. It is not possible to invest directly in an index.

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# Currency carry now favors US dollar investors

By hedging currency exposure back to US dollars, investors generate positive carry of about 2%



FX Forward implied carry on EAFE currency index

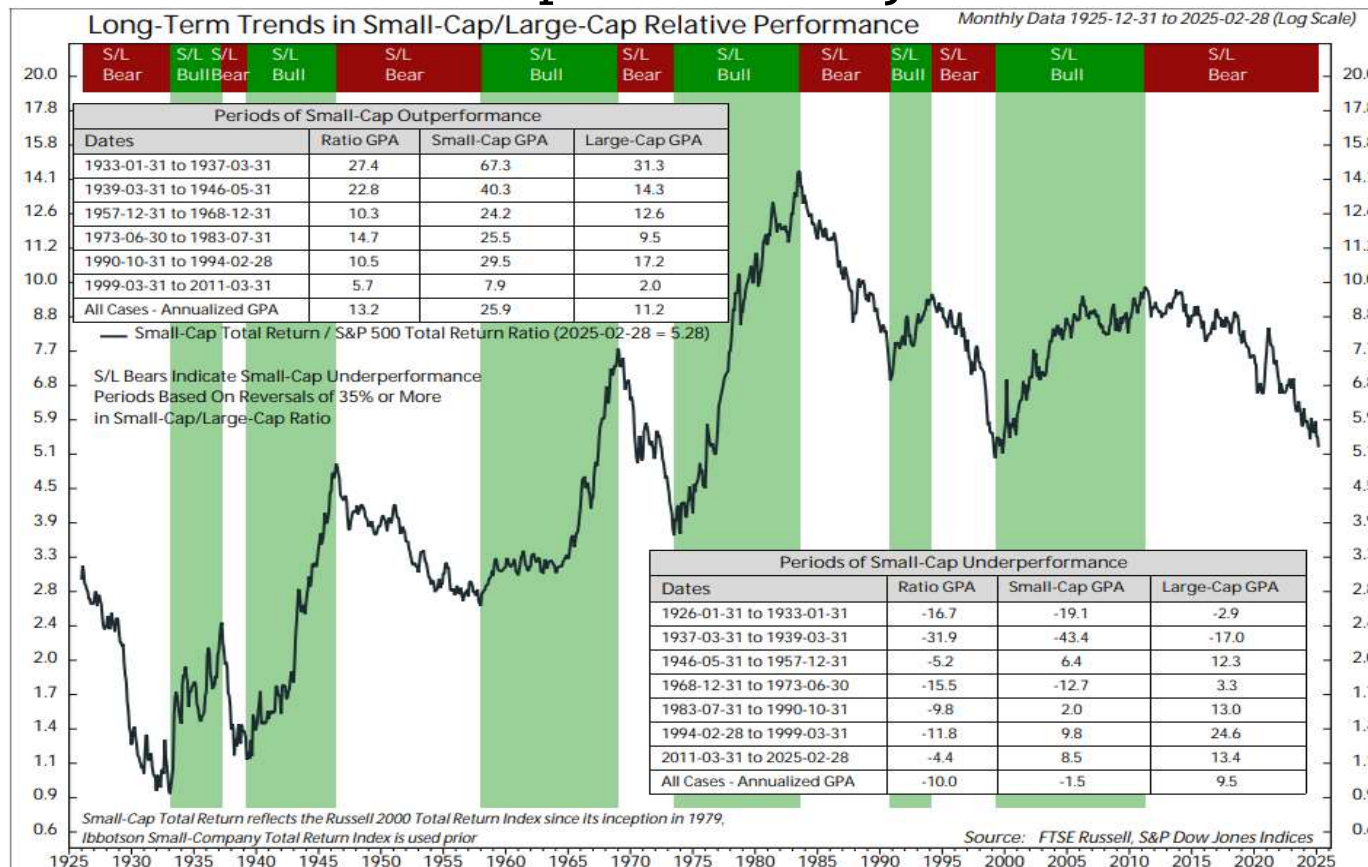
FX forward implied carry



Source: Bloomberg as of 12/31/2024. Past performance is not indicative of future results. It is not possible to invest directly in an index.

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Small caps have been underperforming large caps for a long time.  
Where do we sit in the relative performance cycles?



Source: Ned Davis Research as of Feb 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index.

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## Key Takeaways

1. Current regime of large cap outperformance is looking quite long in the tooth from a time perspective, and thus now may be a great time to prepare for the next 3-12 year cycle
2. Reducing FX exposure in international equities has historically decreased risk in a meaningful way
3. Hedging EAFE currencies exposure back to US dollars now offers around 2% annualized FX carry

Actionable Ideas	Product
DWS Small Cap Core Fund	SZCIX
Xtrackers MSCI Japan Hedged Equity ETF	DBJP
Xtrackers MSCI EAFE Hedged Equity ETF	DBEF

# Important Information



Investment products: No bank guarantee | Not FDIC Insured | May lose value

War, terrorism, sanctions, economic uncertainty, trade disputes, public health crises and related geopolitical events have led, and, in the future, may lead to significant disruptions in U.S. and world economies and markets, which may lead to increased market volatility and may have significant adverse effects.

The opinions and forecasts expressed are those of the speakers and may not come to pass.

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All investments involve risks, including the potential loss of principal.

## Risk considerations

Investments in mutual funds involve risk. Stocks may decline in value. Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. There are additional risks associated with investing in commodities, high-yield bonds, aggressive growth stocks, non-diversified/concentrated funds and small- and mid-cap stocks which are more fully explained in the prospectuses. Please read the prospectus for more information.

## Obtain a prospectus

**Carefully consider the fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the fund's prospectus. To obtain a mutual fund summary prospectus, if available, or prospectus, call (800) 728-3337 or download one here. To obtain an ETF prospectus call (844) 851-4255 or download one here. To obtain the RREEF Property Trust prospectus, download one here. Read the prospectus carefully before investing.**

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